

Docket:	:	A.16-07-002
Exhibit Number	:	ORA - _____
Commissioner	:	M. Picker
Administrative Law Judge	:	S. Park
ORA Witness	:	W. Wei



# **REPORT AND RECOMMENDATIONS ON OPERATING REVENUES, RATE DESIGN and SPECIAL REQUEST 7**

**Application 16-07-002**

**PUBLIC VERSION**

**San Francisco, California  
February 13, 2017**



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## MEMORANDUM

1           The requests and data presented by California American Water (“Cal Am”) in  
2   Application (“A.”) 16-07-002 were examined in order to provide the Commission with  
3   recommendations that represent the interests of ratepayers for safe and reliable service at  
4   lowest cost. Suzie Rose is ORA’s project lead for the proceeding. Richard Rauschmeier  
5   is ORA’s oversight supervisor. Paul Angelopulo and Kerriann Sheppard are ORA’s legal  
6   counsels.

7           Although every effort was made to comprehensively review, analyze and provide  
8   the Commission with recommendations on each ratemaking and policy aspect presented  
9   in the application, the absence from ORA’s testimony of any particular issue does not  
10   necessarily constitute its endorsement or acceptance of the underlying request,  
11   methodology, or policy position related to that issue.



## **CHAPTER 1: OPERATING REVENUE AND CONSUMPTION**

### **A. INTRODUCTION**

This chapter presents ORA's analysis and recommendations on the number of service connections, water consumption, total sales and operating revenues for Cal Am's Larkfield, Sacramento, Monterey, Toro, Garrapata, Ventura, San Diego, and Los Angeles Districts. ORA analyzed Cal Am's application, supporting work papers, Minimum Data Requirements, methods of estimating customer growth, water consumption, operating revenue, and data request responses before formulating its estimates.

A forecast of customers, consumption, and revenue at present rates is important because it is used to calculate the percentage increase or decrease in revenues needed to recover the estimated revenue requirement.

### **B. SUMMARY OF RECOMMENDATIONS**

(1) A five-year average customer growth should be used for forecasting active service connections in all ratemaking service areas with the exception of Toro, Monterey, and Garrapata, due to State Water Resources Control Board Moratorium on "new and expanded" service that affects those areas.<sup>1</sup> Forecasting customer growth using the respective five-year average growth for each customer class ensures consistency across Cal Am's districts and avoids subjectively selecting periods of low or high customer growth in order to achieve a preferential effect upon the forecasted amounts.

(2) ORA does not object Cal Am's methodology for developing its consumption forecast. Any differences in the 2018 total consumption forecast between ORA and Cal Am are the results of differing total customer forecasts (discussed below), with the exception of the Monterey District. In the Monterey District, Cal Am made adjustments that lower the total consumption

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<sup>1</sup> As a result of the Moratorium, there is no growth in these areas, or the five year average growth is zero, thus, Cal Am did not add the five-year average growth in these affected areas. See Sherrene Chew's testimony on page 15.

1 forecast. ORA modified the size of these adjustments such that ORA’s total  
2 consumption forecast is slightly higher than Cal Am’s as explained in detail  
3 below.

## 4 **C. DISCUSSION**

### 5 **1) ACTIVE SERVICE CONNECTIONS**

6 To forecast total customers, Cal Am begins by adding a five-year  
7 average growth rate<sup>2</sup> to its recorded 2015 year end customer count, and to  
8 each subsequent year, to reach the projected year-end number of customers for  
9 Test Year 2018.<sup>3</sup> Cal Am then adds an acquisition number of customers,<sup>4</sup> if  
10 applicable. Cal Am calls this forecast its “Projected Customer”<sup>5</sup> number. Cal  
11 Am further takes an average of 2015 year-end historical and 2016 Projected  
12 Customer number to derive what Cal Am calls the “Projected Average  
13 Customer” number for 2016. Cal Am then takes an average of 2016 and 2017  
14 Projected Customer number and 2017 and 2018 Project Customer number,  
15 respectively to derive the 2018 Projected Average Customer number.<sup>6</sup>

16 Generally, ORA does not oppose Cal Am’s methodology for  
17 forecasting its Projected Customer number and its Projected Average  
18 Customer number. However, ORA’s forecast for number of customers differs  
19 from Cal Am’s forecast in four instances, as discussed below.

#### 20 **a) Spreckels Wastewater** 21 **District**

22 Cal Am anticipated 100 new customers in its Spreckels Wastewater  
23 District starting in April 2016. However, Cal Am only adds half of the

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<sup>2</sup> See the company’s respective CH03\_REV\_RO.xlsx files, Customers\_Wkpr tabs.

<sup>3</sup> See the company’s respective CH03\_REV\_RO.xlsx files, Customers\_Wkpr tabs.

<sup>4</sup> Acquisition number refers to the customer number increase as a result of water company acquisitions Cal Am has made or the result of new housing development.

<sup>5</sup> See the company’s respective CH03\_REV\_RO.xlsx files, Customers\_Wkpr tabs.

<sup>6</sup> See the company’s respective CH03\_REV\_RO.xlsx files, Customers\_Wkpr tabs.



1 anticipated customers, or 50 customers, to the projected average number of  
2 customers for its 2018 forecast. 100 customers should be incorporated in the  
3 2018 forecast, rather than 50, because the 2016 acquisition will take full effect  
4 in 2018.

5 In addition, an average customer growth of negative two residential  
6 customers and positive four commercial customers per year that Cal Am  
7 omitted is incorporated into ORA's forecast.<sup>7</sup>

#### 8 **b) Las Palmas**

9 Cal Am omitted Las Palmas' average customer growth rate from the  
10 forecast for average customers. Five new customers per year<sup>8</sup> should be  
11 added to the average projected customer number in Monterey Wastewater  
12 District Las Palmas residential class for 2016 – 2018.<sup>9</sup>

#### 13 **c) Dunnigan Water Works**

14 Cal Am understates its customer acquisition count for Dunnigan Water  
15 Works ("Dunnigan"), which is located in the Sacramento District, as 121 new  
16 customers. In response to ORA discovery, Cal Am stated that 121 was the  
17 "active number of customers at the time of acquisition."<sup>10</sup> However,  
18 Dunnigan's 2015 Annual Report, Schedule M states that Dunnigan has 243  
19 active customers.<sup>11</sup> The CPUC "Decision Authorizing California- American  
20 Water to Purchase the Public Utility Assets of Dunnigan Water Works" states

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<sup>7</sup> Annual customer growth for 2016 through 2018 is negative 2 customers for the residential class each year. The average customer growth for 2018, calculated using Cal Am's methodology, is -2 divided by 2, or -1. Therefore, ORA's total customer growth forecasted for 2016 – 2018 is -5 for the residential class. Cal Am's methodology was also used to calculate customer growth for the commercial customer class. ORA's total customer growth forecasted for 2016-2018 is 10 for the commercial customer class.

<sup>8</sup> See "MOWW\_CH03\_REV\_RO.xlsx" file, "Cust\_Wkpr" tab, cell H205.

<sup>9</sup> Annual customer growth for 2016 through 2018 is 5 customers each year. The average customer growth for 2018, calculated using Cal Am's methodology, is 5 divided by 2, which is rounded to 3. Therefore, ORA's total customer growth forecasted for 2016 – 2018 is 13.

<sup>10</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-004.2 Q.1, included herein as Attachment 2.

<sup>11</sup> 2015 Annual Report of Dunnigan Water Works – Water, Schedule M, page 13 of 15.

1 that **\$2.9 million** was authorized to purchase **253 non-metered residential**  
2 **service connections**.<sup>12</sup> In compliance with the Decision, ORA uses 253 non-  
3 metered residential service connections. However, the issue of the actual  
4 number of customers Cal Am acquired in the Dunnigan acquisition remains  
5 unclear, and the Commission should further investigate this issue.

#### 6 **d) Geyserville Water Works**

7 Geyserville Water Works (GWW), is also located in the Sacramento  
8 District. Cal Am understates the customer acquisition count for GWW as 305  
9 new customers. Specifically, Cal Am responded to ORA discovery that 305  
10 customers were acquired in 2016 for GWW.<sup>13</sup> However, the CPUC approved  
11 a general rate increase resolution in 2015 filed by GWW, where GWW  
12 indicated that it has 315 active service connections.<sup>14</sup> Cal Am stated that it  
13 exercised due diligence in reporting, and “cannot speak to the validity of  
14 Geyserville’s filing and customer count.”<sup>15</sup> Given that the Commission  
15 adopted the customer count of 315, this is the appropriate number to use for  
16 forecasting.

17 The following table shows a comparison between Cal Am and ORA’s  
18 customer forecasts related to acquisition or growth:

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<sup>12</sup> D.15-11-012, Decision Authorizing California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works, \$2 million purchase price plus \$900,000 consulting fees for previous owners.

<sup>13</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-004.2, Q.2.

<sup>14</sup> Resolution W-5028, p. 1.

<sup>15</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-004.2, Q.2, included herein as Attachment 2.

**Table 1-1: Cal Am vs. ORA's 2018  
Customer Acquisition/Growth Forecasts**

	Cal Am	ORA	Variance
	Col 1	Col 2	Col 2 - Col 1
<b>Sacramento District</b>			
Dunnigan Residential Acquisition	121	253	132
Geyserville Residential Acquisition	305	315	10
<b>Monterey Wastewater</b>			
Spreckles Residential Acquisition	50	100	50
Spreckles Residential Growth	0	(5)	(5)
Spreckels Commercial Growth	0	10	10
Las Palmas Residential Growth	0	13	13

See Tables 1-2 to 1-3 for a comparison of Cal Am and ORA's estimates of customers for Test Year 2018 for districts in which Cal Am and ORA's estimates differ.

**Table 1-2: Cal Am vs. ORA Customer Forecasts  
Sacramento District<sup>16</sup>**

Description	Cal Am Projected TY 2018	ORA Projected TY 2018	ORA- Cal Am Variance
-------------	--------------------------------	-----------------------------	----------------------------

Col 1

Col 2

Col 2-Col 1

**Metered Customers:**

Residential	56,303	56,445	142
Commercial	4,899	4,899	0
Industrial	1	1	0
Public Authority	355	355	0
Other	4	4	0
Sub-Total	61,562	61,704	142

**Private Fire Service:**

4"	124	124	0
6"	314	314	0
8"	446	446	0
10"	36	36	0
12"	15	15	0
Sub-Total	935	935	0
<b>TOTAL</b>	<b>62,497</b>	<b>62,639</b>	<b>142</b>

<sup>16</sup> Excel file "SAC\_CH03\_REV\_RO.xlsb", tab "Cust Wkpr".

**Table 1-3: Cal Am vs. ORA's Customer Forecast  
Monterey Wastewater District<sup>17</sup>**

Description	Cal Am Projected TY 2018	ORA Projected TY 2018	ORA- Cal Am Variance
<b>Passive Customers:</b>			
<b>Village Greens</b>			
Residential	21	21	0
<b>White Oaks</b>			
Residential	40	40	0
<b>Oak Hills</b>			
Residential / Small Commercial	446	446	0
<b>Spreckels</b>			
Residential / Small Commercial	284	329	45
Large Commercial	30	40	10
Industrial	2	2	0
Public Authority	3	3	0
<b>Spreckels Subtotal</b>	319	374	55
<b>Passive Customers Total</b>	<b>826</b>	<b>881</b>	<b>55</b>

<b>Active Customers:</b>			
<b>Pasadera</b>			
Residential	255	255	0
Commercial	14	14	0
<b>Pasadera Subtotal</b>	269	269	0
<b>Las Palmas</b>			
Residential	1,016	1,029	13
Golf Courses (4 EDU's) <sup>18</sup>	1	1	0
Commercial (6 EDU's)	1	1	0
Public Authority 5EDU's)	1	1	0
<b>Las Palmas Subtotal</b>	1,019	1,032	13
<b>Carmel Valley Ranch</b>			
Residential	300	300	0
Hotel (144 EDU's)	1	1	0
<b>Carmel Valley Ranch Subtotal</b>	301	301	0
<b>Indian Springs</b>			
Residential	173	173	0
Sm Commercial	0	0	0

<sup>17</sup> Excel file "MOWW\_CH03\_REV\_RO.xlsb", tab "Cust Wkpr".

<sup>18</sup> EDUs stands for "Equivalent Dwelling Units."

<b>Indian Springs Subtotal</b>	173	173	0
<b>Active Customers Total</b>	<b>1,762</b>	<b>1,775</b>	<b>13</b>
<b>Total Wastewater Customers</b>	<b>2,588</b>	<b>2,656</b>	<b>68</b>

The Commission should adopt ORA's customer forecast based on the discussion above.

## **2) TOTAL FORECASTED ANNUAL CONSUMPTION**

To forecast annual consumption, Cal Am multiplies the average annual consumption per customer by the total customer number forecast. ORA does not object to Cal Am's methodology.

The following discussion provides a comparison of Cal Am and ORA's annual consumption forecasts. The variance between Cal Am and ORA's annual consumption forecasts is due to the use of different customer forecasts, with the exception of the Monterey County District.

### **a) Monterey District**

In the Monterey County District's main system, Cal Am makes two adjustments. Each of the adjustments results in a reduction of the total annual consumption forecast, and are discussed below.

#### **i) Cal Am removes three Pacific Grove customers that belong to the Public Authority customer class.**

Cal Am states in its work paper that data entries in the adjustment columns are for the removal of three Pacific Grove customers.<sup>19</sup> ORA agrees with Cal Am's adjustment to consumption related to the number of Public Authority customers.

#### **ii) Cal Am removes a portion of the 2013 billing from the 2014 record.**

Cal Am's remaining line item adjustments remove 2013 billings recorded in 2014. Cal Am uses 2014 recorded consumption as the basis for

<sup>19</sup> Sherrene Chew's testimony, page 17, lines 15 to 17; and comments on its workpaper "MOC\_CH03\_REV\_RO.xlsb", "Cons\_Wkpr" tab.

1 the consumption forecast. Thus, overstated recorded 2014 consumption will  
2 lead to an overstated 2018 consumption forecast. Cal Am asserts that it makes  
3 an adjustment to be “consistent with consumption levels used (in) the rate  
4 design in A.15-07-019.”<sup>20</sup> ORA attempted to verify Cal Am’s assertion by  
5 reconciling the recorded 2014 usage reported in the A.15-07-019 with the  
6 amount reported in the work paper. The amounts do not reconcile; in this  
7 GRC, Cal Am overstated this downward adjustment to the recorded 2014  
8 consumption for the residential customer class by 2.5 times.<sup>21</sup> To estimate a  
9 more appropriate adjustment, ORA reduced Cal Am’s adjustment to all  
10 customer classes (other than Public Authority) by 2.5 times. The variance in  
11 Table 1-4 below is due to the different “adjustment” calculations used by Cal  
12 Am and ORA. ORA recommends that the Commission adopt ORA’s adjusted  
13 amounts, presented in the below table, for Cal Am’s Monterey Main System’s  
14 consumption forecast.

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<sup>20</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-007, Q006.1.

<sup>21</sup> ORA calculated the amount of overstatement using data for the residential customer class because this is the only customer class for which Cal Am provided the data. A.15-07-019, page 23 of 78 pdf, indicates that 2014 recorded usage for the residential customer class was 21,196,747 (tens of cf). This converts to 2,119,675 ccf, versus the 2014 recorded usage for the residential customer class in MOC\_CH03\_REV\_RO.xlsb, of 2,183,905 ccf. The difference between these two amounts is  $2,183,905 - 2,119,675 = 64,230$  ccf. Comparing this amount with the adjustment of 160,026 ccf consumption reduction in residential class made by Cal Am in this GRC forecast, Cal Am overstates the adjustment amount by a factor of 2.5 ( $160,026 / 64,230 = 2.5$ ); therefore, ORA adjusts all the remaining customer classes other than Public Authority down by 2.5 times.

**Table 1-4: 2018 Cal Am vs. ORA's Annual Consumption (in ccf)**  
**Monterey District – Main System**

Description	Cal Am Projected	Cal Am's Adj. to Projection	Cal Am Adjusted Projection	ORA Projection	ORA's Adj. to Projection	ORA Adjusted Projection
	Col 1	Col 2	Col 1+Col 2	Col 4	Col 5	Col 4+Col 5
<b>Monterey Main</b>						
Residential	2,179,565	(160,026)	<b>2,019,539</b>	2,179,565	(64,230)	<b>2,115,335</b>
Multi-residential	661,996	(55,738)	<b>606,258</b>	661,996	(22,372)	<b>639,624</b>
Commercial	1,152,795	(42,816)	<b>1,109,979</b>	1,152,795	(17,185)	<b>1,135,610</b>
Industrial	14,497	(548)	<b>13,949</b>	14,497	(220)	<b>14,277</b>
Public Authority	234,700	(31,370)	<b>203,330</b>	234,700	(31,370)	<b>203,330</b>
Sales for Resale	2,911	0	<b>2,911</b>	2,911	0	<b>2,911</b>
Construction	4,585	(494)	<b>4,091</b>	4,585	(198)	<b>4,387</b>
Golf Courses	53,779	(23,962)	<b>29,817</b>	53,779	(9,618)	<b>44,161</b>
<b>Main Sys Total</b>	<b>4,304,828</b>	<b>(314,954)</b>	<b>3,989,874</b>	<b>4,304,828</b>	<b>(145,193)</b>	<b>4,159,635</b>

**b) Sacramento District**

The variance between ORA and Cal Am's annual consumption forecasts for the Sacramento District is the result of different customer forecasts, as discussed in the previous section. Table 1-5 provides a comparison of Cal Am and ORA's annual consumption forecasts for the Sacramento District.

**Table 1-5: 2018 Cal Am vs. ORA's Annual Consumption (in ccf)**  
**Sacramento District**

Description	Cal Am Projected 2018	ORA Projected 2018	ORA- Cal Am Variance
	Col 1	Col 2	Col 2-Col 1
<b>Metered Customers:</b>			
Residential	7,313,760	7,332,206	18,446
Commercial	3,475,351	3,475,351	0
Industrial	222,238	222,238	0
Public Authority	631,971	631,971	0
<b>TOTAL</b>	<b>11,643,320</b>	<b>11,661,766</b>	<b>18,446</b>



ORA’s annual consumption forecasts in districts other than Monterey and Sacramento do not differ.

### 3) CALCULATING REVENUES WITH PRESENT RATES

Tables 1-6.A through 1-6.K. compare the differences between ORA and Cal Am’s forecasts of total revenues under present rates. Differences in total revenue estimates reflect differences in forecasted number of customers.<sup>22</sup>

**Table 1-6.A: Comparison of Cal Am vs. ORA’s  
2018 Operating Revenue at Present Rates**

<b>Sacramento</b> <u>23</u>  <b>Description</b>			
	<b>Cal Am</b>	<b>ORA</b>	<b>(ORA-Cal Am)</b>
	<b>Estimated</b>	<b>Estimated</b>	<b>Cal Am</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>%</b>
	<b>Col 1</b>	<b>Col 2</b>	<b>(Col2-Col1)/Col 1</b>
<b>Operating Revenues at Present Rates</b>	\$48,163,296	\$48,274,967	0.22%

<sup>22</sup> There are also some minor differences that result from the use of different tariff rates. Specifically, ORA fixed some rate differences which might be the result of rounding after conversion from \$/CGL on the tariff to \$/ccf on the work paper, and updated rates according to the latest approved ALs where appropriate. In the instance of Monterey County Advice Letter 1097, ORA corrected tariff rates in Cal Am’s excel file MOC\_REV\_RO under the conservation rate tab to match the rates in the Advice Letter. In addition, ORA fixed some formula errors in Cal Am’s work papers.

<sup>23</sup> Cal Am’s data was extracted from “SAC\_CH03\_REV\_RO.xlsb” file, “present rate revenue” tab.

**Table 1-6.B: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
San Diego<sup>24</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$28,855,948	\$28,862,976	0.02%

**Table 1-6.C: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Ventura<sup>25</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$37,048,164	\$37,048,932	0.002%

**Table 1-6.D: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Larkfield<sup>26</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$2,946,897	\$2,952,076	0.18%

**Table 1-6.E: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Los Angeles – Baldwin Hills<sup>27</sup>**

<sup>24</sup> Cal Am's data was extracted from "SDC\_CH03\_REV\_RO.xlsb" file, "present rate revenue" tab.

<sup>25</sup> Cal Am's data was extracted from "VEN\_CH03\_REV\_RO.xlsb" file, "present rate revenue" tabs.

<sup>26</sup> Cal Am's data was extracted from "LKD\_CH03\_REV\_RO.xlsb" file, "present rate revenue" tab.

<sup>27</sup> Cal Am's data was extracted from "LAC\_CH03\_REV\_RO.xlsb" file, "present rate revenue BH" tab.

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$6,457,747	\$6,259,991	-3.06%

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**Table 1-6.F: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Los Angeles – Duarte<sup>28</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$8,266,514	\$8,267,888	0.02%

**Table 1-6.G: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Los Angeles – San Marino<sup>29</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$16,899,324	\$16,898,324	-0.01%

**Table 1-6.H: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Toro<sup>30</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$806,027	\$806,027	0%

<sup>28</sup> *Id.*, “present rate revenue DU” tab.

<sup>29</sup> *Id.*, “present rate revenue SM” tab.

<sup>30</sup> Cal Am's data was extracted from “TORO\_CH03\_REV\_RO.xlsb” file, “present rate revenue” tab.

**Table 1-6.I: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Garrapata<sup>31</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$83,490	\$94,720	13.45%

**Table 1-6.J: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Monterey<sup>32</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$60,383,017	\$61,002,682	1.03%

**Table 1-6.K: Comparison of Cal Am vs. ORA's  
2018 Operating Revenue at Present Rates  
Monterey Wastewater<sup>33</sup>**

Description	Cal Am	ORA	(ORA-Cal Am)
	Estimated	Estimated	Cal Am
	(\$)	(\$)	%
	Col 1	Col 2	(Col2-Col1)/Col 1
<b>Operating Revenues at Present Rates</b>	\$3,336,420	\$3,378,412	1.24%

<sup>31</sup> Cal Am's data was extracted from "GRPA\_CH03\_REV\_RO.xlsx" file, "present rate revenue" tab. The difference in the 2018 present rate revenue forecast is because Cal Am's estimate uses the existing flat service charges for all customers in Garrapata, even though all the customers in the area have converted from unmetered to metered customers in 2016. ORA's estimates use the service charges plus quantity charges since Cal Am plans to start charging these customers on metered rates in 2018.

<sup>32</sup> Cal Am's data was extracted from "MOC\_CH03\_REV\_RO.xlsx" file, "present rate revenue" tab.

<sup>33</sup> Cal Am's data was extracted from "MOWW\_CH03\_REV\_RO.xlsx" file, "present rate revenue" tab.

1           **D.     CONCLUSION**

2           ORA disagrees with Cal Am's customer forecast numbers in the  
3   Sacramento and Monterey Wastewater districts, and Cal Am's consumption  
4   forecast in Monterey District, leading to different consumption forecasts and  
5   different total operating revenues. The Commission should adopt ORA's  
6   estimates.

## 1    **CHAPTER 2: OPERATING EXPENSES**

### 2        **A.     INTRODUCTION**

3            This chapter presents ORA’s analysis and recommendations on the  
4   variable costs forecast for Purchased Power, Purchased Water, Chemicals and  
5   Uncollectibles in Larkfield, Los Angeles, Monterey County Water and  
6   Wastewater, Toro, Garrapata, Sacramento, San Diego, and Ventura for Test  
7   Year 2018.

8            ORA analyzed Cal Am’s testimony, reports, supporting work papers,  
9   responses to both the Minimum Data Requirements and Supplemental Data  
10   Requests, and methods of estimating these variable Operations and  
11   Maintenance (O&M) expenses.

### 12        **B.     SUMMARY OF RECOMMENDATIONS**

13            ORA discovered discrepancies in the purchased water unit prices used  
14   in Cal Am’s Purchased Water work paper. Cal Am stated that it would make  
15   corrections via the 100 day update,<sup>34</sup> but did not do so. Therefore, ORA  
16   adjusted the Purchased Water work paper based on Cal Am’s discovery  
17   response,<sup>35</sup> as described below. Differences in ORA and Cal Am’s forecasted  
18   amounts result from these revisions.

19            ORA also discovered design flaws in Cal Am’s chemical costs forecast  
20   work paper, resulting in overstated chemical costs. The Commission should  
21   adopt ORA’s calculation for chemical costs forecast.

22            In addition, ORA disagrees with Cal Am’s forecast for leak  
23   adjustments, which is a component of the uncollectible expenses forecast, and  
24   recommends a different approach to forecasting leak adjustments in the  
25   Monterey County District.

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<sup>34</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-002—Cal Am Responses.pdf and A1607002 ORA WW2-002.2 Q001-Q006 Responses.pdf, provided herein as Attachment 3.

<sup>35</sup> *Id.*

1 Other minor differences exist for the uncollectible expenses forecast for  
2 each individual district, as further described below.

3 **C. DISCUSSION**

4 **1) PURCHASED POWER**

5 Cal Am forecasts its Purchased Power by using recorded 2015  
6 Purchased Power costs as the basis and applying ORA's May 2016's ECOS  
7 and Water Branch escalation factors for inflation. Cal Am explains that 2015  
8 recorded data is the best indicator for what the cost is most likely to be in  
9 future years.<sup>36</sup> Cal Am develops two factors, one is the kilowatt-hours  
10 (kwh)/ccf ratio, which is the total power usage divided by total water  
11 production in 2015. This factor indicates how much power will be used for  
12 each ccf of water production. The other factor is purchased power unit cost,  
13 or cost per kwh, which is the total purchased power cost divided by the total  
14 kwh usage.<sup>37</sup> Cal Am further escalates the purchased power unit cost for  
15 inflation. This inflation-adjusted unit cost is multiplied by the amount of  
16 power needed for each district's water production forecast.<sup>38</sup>

17 ORA does not oppose this approach to tie the estimated variable costs  
18 of purchased power with the estimated volume of water produced. ORA  
19 recommends the Commission adopt Cal Am's proposed Purchased Power  
20 expense forecast as follows:

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<sup>36</sup> Testimony of Todd Pray at page 25.

<sup>37</sup> *Id.*, page 25.

<sup>38</sup> "ALL\_CH04\_O&M\_WP\_Purchased Power.xlsb" file, "Escalation of Cost per KWH  
WS2" tab.



**Table 2-1: Cal Am vs. ORA 2018 Purchased Power Forecasts (\$) <sup>39</sup>**

District Name	Cal Am Projected	ORA Projected	Variance
	Col 1	Col 2	Col 2 - Col 1
Los Angeles County District	\$ 2,217,886	\$ 2,217,886	0
Ventura County District	297,424	297,424	0
Monterey - Toro	69,849	69,849	0
Monterey - Garrapata	9,707	9,707	0
Monterey County District	2,116,790	2,116,790	0
Larkfield District	91,074	91,074	0
Sacramento District	2,234,497	2,234,497	0
San Diego County District	1,357	1,357	0
<b>Total</b>	<b>\$ 7,038,584</b>	<b>\$ 7,038,584</b>	<b>0</b>

However, the Commission should use the most updated ECOS memo inflation rates at the time of the final decision to calculate the forecasted amount of Purchased Power expenses.

## **2) PURCHASED WATER**

Depending on the needs of each district, Cal Am supplies a mix of purchased water and pumped water. Cal Am generally forecasts its purchased water expense by calculating the estimated amount of purchased water based upon the water mix and estimated total water production. Next, Cal Am multiplies the purchased water quantity from each water source by the rate charged for each different source. <sup>40</sup>

ORA attempted to verify the purchased water unit cost by requesting actual invoices and other supporting documentation. In most cases, Cal Am did not provide any actual invoices, and instead stated that the latest invoice

<sup>39</sup> “ALL\_CH04\_O&M\_WP\_Purchased Power.xlsx” file, “ OUT\_Purchased Power for Rev” tab.

<sup>40</sup> Testimony of Todd Pray at p. 24.

1 reflects a purchase price different from the purchase price used in Cal Am's  
2 RO model. Cal Am further stated that "California American Water is  
3 amenable to reflecting this in the hundred day update."<sup>41</sup> However, Cal Am  
4 did not update purchased water rates in its hundred day update.

5 For example, ORA requested supporting documents with detailed  
6 calculations for selected purchased water rates in Sacramento. In response,  
7 Cal Am stated, "... Please note that the latest invoice shows \$869, instead of  
8 \$797, which California American Water is amenable to reflecting in the  
9 hundred day update."<sup>42</sup> However, this response did not include a copy of the  
10 latest invoice. ORA responded with an email explaining that the response was  
11 not considered complete without the actual invoice:

12 Question 3 in this Data Request asks for Cal Am to  
13 submit the latest complete invoice referenced in Cal  
14 Am's response to DR ORA WW2-002, question 1.c.ii.l.  
15 As I detailed in response to your e-mail regarding this  
16 question, Cal Am's response to question 1.c.ii.l states  
17 "Please note that the latest invoice shows \$869.00,  
18 instead of \$797..."

19 Cal Am's response to Question 3 states "Please refer to  
20 provided ORA WW2-002 Q001C - Attachment 5, Page  
21 3." The referenced attachment provides a Resolution of  
22 the Main San Gabriel Basin Watermaster, not an invoice,  
23 as requested in Question 3 and referenced in Cal Am's  
24 previous response. Please provide the requested invoice.  
25 The response to this question will not be considered  
26 complete until this information is provided.<sup>43</sup>  
27

28 Cal Am did not respond and to date the discovery response remains  
29 incomplete.

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<sup>41</sup> Cal Am's response in "ORA WW2-002 -Cal Am Responses.pdf", provided herein as Attachment 3.

<sup>42</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-002, Q. 1.c.ii.l, provided herein as Attachment 3.

<sup>43</sup> Email to Sherrene Chew from Suzie Rose dated September 20, 2016.

Furthermore, Cal Am states that there is a purchased water Modified Cost Balancing Account (MCBA) to track the actual costs, and should the actual costs differ from the adopted amount, surcharges or surcredits to consumers will correct any inaccurate forecast in purchased water cost.<sup>44</sup> However, it is important to estimate the most accurate rates possible so that customers do not over-pay for water service.

To estimate purchased water, ORA updated the purchased water unit prices based on the purchased water prices Cal Am provided in its discovery responses. However, because Cal Am's discovery responses are still pending and incomplete, the Commission should require Cal Am to provide full support for these expenses prior to authorizing purchased water estimates in customer rates. The following table shows the comparison between Cal Am and ORA's test year 2018 forecast. The differences are the result of the updated purchased water unit costs discussed herein.

**Table 2-2: Cal Am and ORA's 2018 Purchased Water Forecasts**

(\$)<sup>45</sup>

Description	Cal Am	ORA	Variance
	Col 1	Col 2	Col 2-Col 1
<b>LA-Baldwin Hills</b>	\$ 2,020,898	\$ 2,072,857	\$ 51,959
<b>LA-Duarte</b>	1,576,543	1,530,767	(45,776)
<b>LA-San Marino</b>	3,186,955	3,084,801	(102,155)
<b>Larkfield District</b>	308,419	308,419	-
<b>Sacramento District</b>	2,297,792	1,980,253	(317,539)
<b>San Diego County District</b>	18,376,124	18,376,124	-
<b>Ventura County District</b>	21,778,408	21,778,408	-
<b>Total</b>	<b>\$49,545,139</b>	<b>\$49,131,449</b>	<b>\$ (413,510)</b>

<sup>44</sup> Cal Am response to Data Request ORA A.16-07-002 WW2-002.2 Purchased Water Follow Up at p. 7 and Cal Am's response to Data Request ORA A.16-07-002 WW2-002.2 Q006, provided herein as Attachment 3.

<sup>45</sup> "ALL\_CH04\_O&M\_WP\_Purchased Water.xlsb" file, "OUT\_Purchased Water for Rev" tab.

1 The Commission should order Cal Am to submit all purchased water  
2 invoices supporting the unit costs and volumes forecasted in this GRC as well  
3 as for any future MCBA amortization filings. This will ensure that the  
4 purchased water unit costs are current and that the volume of purchased water  
5 is accurate. Inaccurate rates or inaccurate volumes for purchased water could  
6 significantly change the forecasts for the purchased water costs incurred.

### 7 **3) CHEMICALS**

8 Cal Am maintains a list of chemical product line items and estimates its  
9 chemical unit costs based on a three-year (2013 to 2015) average cost for each  
10 individual product line item divided by the units of water produced where that  
11 chemical product line item was applied. Cal Am then escalates the average  
12 chemical unit costs for each individual product line item for inflation to  
13 2015.<sup>46</sup>

14 In some cases, Cal Am calculates a two-year average or one-year  
15 “average” of unit costs instead.<sup>47</sup> Cal Am explains that sometimes the size of  
16 the chemical container changes, creating a need for a different chemical  
17 product line item in their system. Cal Am’s list of chemical product line items  
18 is not a list of individual chemical types, but it is a list of each type of  
19 chemical with different sizes of container or packaging. Changing a chemical  
20 container size triggers Cal Am to add a new chemical product line item to the  
21 list. In the example of adding a new chemical product line item when a  
22 chemical container size changes, there could be two or more line items for the  
23 same chemical. Also, Cal Am states that sometimes new regulations call for  
24 different standards for the water company to follow, causing Cal Am to use a  
25 new chemical which was not previously used, but one which Cal Am  
26 anticipates it will continue to use in the future. Therefore, Cal Am asserts that

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<sup>46</sup> Testimony of Todd Pray at p. 25.

<sup>47</sup> Cal Am’s work paper named “ALL\_CH04\_O&M\_WP\_Chemical.xlsx”, tabs WS-1 and WS-2

1 although these costs have only been incurred for one or two years, the costs  
2 are not extraordinary one-time costs, and should not be removed from the  
3 forecast.<sup>48</sup>

4 While Cal Am's explanations provide insight into why there may be  
5 more than one line item for a single chemical type, Cal Am's method of  
6 calculating the average chemical costs do not take into account that these line  
7 items are related. Not averaging all the related line items' cost and quantity  
8 uniformly overstates the total chemical costs.

9 The following is an example from Cal Am's workpaper for its  
10 Monterey Wastewater district.

11 **Table 2-3.A: Total Quantity of Chemicals**  
12 **(#1200941 and #1200942) Used (in pounds)<sup>49</sup>**

Material #	Chemical	2013	2014	2015	3 Yr Avg
1200941	CHM,SODIUM HYPOCHLORITE,13%,BULK	395,006	522,478	253,072	390,185
1200942	CHM,SODIUM HYPOCHLORITE,13%,MINI BULK			380,430	<b>380,430</b>
<b>Total Quantity Used</b>		<b>395,006</b>	<b>522,478</b>	<b>633,502</b>	<b>770,615</b>

13  
14 The two line items listed in table 2.3-A are the same chemical product,  
15 but with different size packaging. When Cal Am calculates the three-year  
16 average quantity for the mini bulk container, it does not divide the quantity of  
17 380,430 pounds by three, thus the same chemical's three-year average  
18 quantity ends up being 770,615 pounds, which is higher than any of the  
19 previous three years' quantity. The correct three-year average quantity for this

---

<sup>48</sup> All Cal Am's statements in this paragraph are from Cal Am's response to data request  
ORA A.16-07-002 WW2-003, Q1.d.i and Q1.d.ii

<sup>49</sup> Cal Am's work paper "ALL\_CH04\_O&M\_WP\_Chemical.xlsx, tab "Quantity of Chemical  
WS-1"

specific chemical should be 516,995 pounds.<sup>50</sup> Cal Am’s method results in an overstatement of 253,619 pounds in this example.

Cal Am further multiplies the “average quantity of chemical needed” by its average unit costs for each chemical to derive the total chemical costs. The following table further demonstrates how Cal Am’s calculation overstates its recorded and escalated chemical costs.

**Table 2-3.B: Total Costs of Chemical  
(#1200941 and #1200942)  
Used (in \$)<sup>51</sup>**

Material #	Chemical	Recorded			Escalated Recorded			
		2013	2014	2015	2013	2014	2015	3 Yr Ave
1200941	CHM,SODIUM HYPOCHLORITE,13%,BULK	46,742	63,010	23,265	47,252	62,657	23,265	44,391
1200942	CHM,SODIUM HYPOCHLORITE,13%,MINI BULK			53,801	-	-	53,801	53,801
Total Costs of Chemical Used		46,742	63,010	77,065	47,252	62,657	77,065	98,192

Similarly, Cal Am overstates its three-year escalated average costs for this specific chemical in this example by not averaging the mini bulk sized chemical. Instead of \$98,192, the correct escalated average costs should be \$62,325.<sup>52</sup> Using Cal Am’s method leads to an overstatement of \$35,867 for this chemical alone.

<sup>50</sup> Calculated by taking total quantity used each year shown in Table 2-3.A divided by three (395,006 + 522,478 + 633,502)/3 = 516,995 pounds.

<sup>51</sup> Cal Am’s workpaper “ALL\_CH04\_O&M\_WP\_Chemical.xlsx, tab “Value of Chemical WS-2”

<sup>52</sup> Cal Am calculated the escalated costs for the chemical to be \$(47,252+62,657+23,265)/3+\$53,801/1=\$44,391+\$53,801=\$98,192. The correct calculation should be \$(47,252+62,657+23,265)/3+\$53,801/3=\$62,325. The amount overstated is \$98,192-\$62,325=\$35,867.

**Table 2-3.C: Total Chemical Costs for Monterey Wastewater**

(\$)<sup>53</sup>

Material #	Recorded			Escalated Recorded			3 Yr Avg
	2013	2014	2015	2013	2014	2015	
1200695	\$29,440	34,394	41,390	29,761	34,201	41,390	\$35,118
<b>1200941</b>	<b>46,742</b>	<b>63,010</b>	<b>23,265</b>	<b>47,252</b>	<b>62,657</b>	<b>23,265</b>	<b>44,391</b>
<b>1200942</b>			<b>53,801</b>	-	-	<b>53,801</b>	<b>53,801</b>
1201005	47,304	28,884	24,003	47,820	28,723	24,003	33,515
1201032	6,314	7,151	11,733	6,382	7,111	11,733	8,409
1201041	64,767	83,077	75,340	65,473	82,611	75,340	74,475
1201043	22,510	24,714	20,526	22,756	24,575	20,526	22,619
<b>Total</b>	<b>\$217,077</b>	<b>241,229</b>	<b>250,057</b>	<b>219,445</b>	<b>239,878</b>	<b>250,057</b>	<b>\$272,327</b>

As Table 2-3.C indicates, Cal Am’s work papers add all the three-year escalated average costs in the last column of the table (escalated to 2015 year level) for all types of chemicals to \$272,327, which is overstated by at least \$35,867 (as described above), or 15.2% for Monterey Wastewater District.

Cal Am then further escalates<sup>54</sup> this amount of \$272,327 to \$295,960 for its 2018 estimate.<sup>55</sup>

As can be seen by the examples above, Cal Am’s work paper design is flawed. ORA recommends taking the total chemical costs and dividing this amount by the total production within each district to get a combined chemical cost per production unit. This combined chemical cost per production unit should be multiplied by the forecasted water production to get the chemical

<sup>53</sup> Cal Am’s work paper “ALL\_CH04\_O&M\_WP\_Chemical.xlsx, tab “Value of Chemical WS-2.”

<sup>54</sup> Cal Am applies ORA’s ECOS escalation factors to its historical data from 2013 to 2015 to 2015 level, averages it, and then applies an annual escalation factors for each year on the average amount of \$272,327 to bring it from 2015 level to 2018 level.

<sup>55</sup> Cal Am’s work paper “ALL\_CH04\_O&M\_WP\_Chemical.xlsx, tab “F\_Chemical Exp by Dist WS-6”, Cell D28.

cost forecast. The chemical cost forecast should then be escalated to obtain the 2018 Test Year chemical costs forecast.

For Monterey Wastewater, the chemical costs are not tied to water production. Therefore, ORA did not calculate the combined chemical cost per production unit. Instead, the TY 2018 chemical costs are best forecasted by averaging the escalated historical costs and applying the proper escalation factors to adjust for inflation.

The following table provides a comparison of Cal Am and ORA's Test Year 2018 chemical cost forecast.<sup>56</sup>

**Table 2-3.D: Cal Am and ORA's 2018 Chemical Forecasts<sup>57</sup>**

District #	District Name	Cal Am	ORA	Variance
		Col 1	Col 2	Col 2-Col 1
1540	Monterey County District	\$ 389,479	\$ 337,092	\$ (52,387)
1542	Monterey Wastewater	295,960	263,212	(32,747)
1550	Los Angeles County District	93,597	103,019	9,422
1560	Sacramento District	265,073	260,767	(4,306)
1561	Larkfield District	12,495	14,917	2,421
<b>Total Chemical Costs</b>		<b>\$ 1,056,603</b>	<b>\$ 979,007</b>	<b>\$ (77,596)</b>

However, the Commission should use the most updated ECOS memo inflation rates at the time of the Final Decision to calculate the forecasted amount of Chemical expenses.

#### **4) UNCOLLECTIBLES**

The forecast of uncollectibles includes uncollectible expenses from the customer and "Good Will" leak adjustments the company extends to its customers \*\*\*BEGIN CONFIDENTIAL\*\*\*

\*\*\*END CONFIDENTIAL\*\*\*.

<sup>56</sup> The forecasted costs have been escalated by using ORA's May 2016's Escalation Factors Memo.

<sup>57</sup> Cal Am's work paper "ALL\_CH04\_O&M\_WP\_Chemical.xlsx, tab "OUT\_Chemical for REV"



Cal Am forecasts uncollectible expenses, or bad debt, by dividing total bad debt by total revenue for the whole company, which equals an average of 0.5141%<sup>58</sup> for the past five years. The following table provides a summary of Cal Am's historical ratio of uncollectible expenses:

**Table 2-4: Summary of Historical Uncollectible Expenses,  
Ratio of Uncollectible and Average Ratio<sup>59</sup>**

Uncollectibles	2011	2012	2013	2014	2015	Ave
San Diego						
Uncollectibles	\$90,929	121,456	117,606	133,310	74,280	
Total Billed Rev.	\$16,572,040	18,307,878	21,390,732	26,218,378	23,850,662	
% of Uncollectible	0.5487%	0.6634%	0.5498%	0.5085%	0.3114%	0.5164%
Monterey County						
Uncollectibles	\$172,038	229,795	222,510	252,224	67,728	
Total Billed Rev.	\$34,711,864	41,199,451	38,824,529	43,340,151	38,513,587	
% of Uncollectibles	0.4956%	0.5578%	0.5731%	0.5820%	0.1759%	0.4769%
Monterey Wastewater						
Uncollectibles	\$9,820	13,117	12,701	14,397	8,894	
Total Billed Rev.	\$3,119,039	3,335,938	3,156,975	3,405,703	3,229,724	
% of Uncollectibles	0.3148%	0.3932%	0.4023%	0.4227%	0.2754%	0.3617%

<sup>58</sup>Cal Am's response to ORA A.16-07-002 WW2-001.2, Q001 states that total uncollectibles (excluding leak adjustments) from all districts are divided by total revenues from all districts to calculate the ratio for each year from 2011 to 2015. The ratios for 2011 to 2015 are then averaged to arrive at 0.5141%.

<sup>59</sup>Uncollectible expenses in this table are extracted from ALL\_CH04\_O&M\_RO.xlsb, "Sum Costs After Alloc WS9C" tab, Total Billed Revenues are from the corresponding REV\_RO files, "Out\_PRR\_Total" tabs from each district/ratemaking area. The Leak Adjustment Expenses from 2015 extracted from Cal Am's response to ORA WW2-001 Q003 Attachment 1 are removed from 2015 historical data to compare uncollectible expenses only.

Los Angeles						
Uncollectibles	\$119,864	160,106	155,030	175,732	99,498	
Total Billed Rev(BH)	\$4,616,947	5,254,003	5,556,736	5,937,805	5,064,440	
Total Billed Rev(DU)	\$5,935,332	6,844,645	8,309,860	8,416,863	6,406,563	
Total Billed Rev(SM)	\$11,480,504	12,845,875	16,610,413	16,981,169	13,392,794	
Total Billed Rev LAC	\$22,032,783	24,944,523	30,477,009	31,335,837	24,863,797	
% of Uncollectibles	0.5440%	0.6418%	0.5087%	0.5608%	0.4002%	0.5311%
Ventura County						
Uncollectibles	\$91,229	121,856	117,993	133,750	75,112	
Total Billed Water	\$26,078,320	30,156,820	35,489,696	35,909,820	28,975,691	
% of Uncollectibles	0.3498%	0.4041%	0.3325%	0.3725%	0.2592%	0.3436%
Sacramento County						
Uncollectibles	\$253,221	338,234	327,512	371,247	222,167	
Total Billed Water	\$41,742,138	49,384,831	55,887,543	48,128,089	43,434,559	
% of Uncollectibles	0.6066%	0.6849%	0.5860%	0.7714%	0.5115%	0.6321%
Larkfield County						
Uncollectibles	\$10,495	14,018	13,574	15,386	6,290	
Total Billed Water	\$2,503,039	2,712,381	3,191,432	2,827,882	2,673,770	
% of Uncollectibles	0.4193%	0.5168%	0.4253%	0.5441%	0.2352%	0.4281%

As Table 2-4 shows, the uncollectible expense ratios vary somewhat by district. ORA maintains a separate forecast by district or ratemaking area for uncollectible expense which results in partial averaging of uncollectible expense consistent with Cal Am's consolidation proposal while avoiding the additional averaging of these costs between different ratemaking areas.

Cal Am calculates the leak adjustment forecast separately for each individual district. Cal Am uses a two-year average for Monterey District and

for the remaining districts uses recorded 2015 leak adjustment data. For each district other than Sacramento and Larkfield, Cal Am then subtracts projected savings from implementing Automated Meter Infrastructure (AMI).<sup>60</sup>

ORA accepts Cal Am's forecast for leak adjustment with two exceptions: 1) in accordance with the testimony of Justin Menda, ORA does not incorporate Cal Am's projected savings from implementing AMI in the forecast; and 2) ORA rejects Cal Am's forecast of \$1,417,702 for leak adjustments in the Monterey District for Test Year 2018, and recommends \$59,252 instead as discussed further below.

**Table 2-5: Recorded 2015 and Cal Am vs. ORA's 2018  
Forecasted Leak Adjustments (\$)**

District/Rate Area	Cal Am 2015 Recorded	Cal Am 2018 Projected	ORA 2018 Projected	Variance
	Col 1	Col 2	Col 3	Col 3 – Col 2
San Diego County District	34,482	18,970	34,482	15,512
Monterey County District	3,718,023	1,417,702	59,252	(1,358,450)
Monterey – Toro	8,831	8,831	8,831	0
Los Angeles County District	29,019	19,144	29,019	9,875
Ventura County District	24,627	11,214	24,627	13,413
Sacramento County District	20,618	20,618	20,618	0
Larkfield District	7,244	7,244	7,244	0
<b>Total</b>	3,842,844	1,503,723	184,073	(1,319,650)

As can be seen in Table 2-5, in 2015, Monterey County District (Monterey) has an anomalously high recorded leak adjustment relative to Cal Am's other districts. The second highest leak adjustment is recorded in San Diego County District, which is \$34,482. This is more than 100 times smaller

<sup>60</sup>Testimony of Todd Pray at pp.26-28.

1 than Monterey's recorded leak adjustments. Cal Am asserts that the reasons  
2 recorded leak adjustments in Monterey are so high is mostly due to the steeply  
3 inclining ratio of rate tiers, and partially due to rising levels of customer  
4 awareness of leaks and the possibility of obtaining leak adjustments.<sup>61</sup>

5 However, D.16-12-003 authorized Cal Am to eliminate the previous  
6 per capita water allotments in Monterey, and reduce the rate multiples  
7 between Tier 5 and Tier 1.<sup>62</sup> Thus the recorded leak adjustments in Monterey  
8 based on an aborted tier rate design are not reliable to forecast leak  
9 adjustments going forward. Cal Am's reliance on the most recent two  
10 recorded years particularly overstates leak adjustments, as these are the two  
11 highest recorded years. Table 2-6 below shows recorded versus forecasted  
12 leak adjustment for Monterey. The average 2014 and 2015 recorded leak  
13 adjustments are \$3,017,419. Cal Am utilizes this amount for its 2016 and  
14 2017 leak adjustment forecasts. In 2018, Cal Am reduces its forecast to  
15 account for its proposed installation of AMI, which Cal Am projects will  
16 reduce leak adjustments in Monterey.<sup>63</sup>

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<sup>61</sup> Cal Am's response to ORA DR WW2-001.2 Q002 states that "Essentially, while keeping the revenue requirement neutral, the design had the effect of increasing the rates in the higher tiers. Since leaks drive bills into those high tiers, the increased rates in the higher tiers generate a more pronounced effect on customer adjustments than they would under the prior rate design". Cal Am's response to WW2-001.2 Q003 listed the factors of why leak adjustment expenses are on the rise in Monterey.

<sup>62</sup> D.16-12-003, p. 107.

<sup>63</sup> Testimony of Todd Pray at p. 27.

**Table 2-6. Leak Adjustments - Monterey County District**

Recorded					2014-15 Avg
2011	2012	2013	2014	2015	
\$2,188,537	2,071,889	1,559,132	2,316,815	3,718,023	<b>\$3,017,419</b>

Projected			
2016	2017	2018	2019
<b>\$ 3,017,419</b>	<b>3,017,419</b>	1,417,702	1,417,702

Given that Cal Am's rate design in Monterey is changing as a result of D.16-12-003, the recorded information is not reliable to use in forecasting leak adjustments. Furthermore, even if the recorded information was able to be used for forecasting purposes, it is subject to abuse and is not trustworthy. Five signs of abuse are discussed in confidential Attachment 6 to this report. The Commission should authorize a similar amount of leak adjustments per customer in Monterey as in Cal Am's other districts. The average leak adjustment per customer in non-Monterey districts, according to Cal Am's work paper, is 0.63%, with a corresponding average dollar adjustment of \$239.74.<sup>64</sup> Applying this percentage to Monterey, 0.63% of the 39,230 customers in Monterey results in 247 leak adjustments. Applying the average dollar adjustment of \$239.74 to the 247 leak adjustments gives a total of \$59,251.5 for annual leak adjustments in Monterey.

#### **D. CONCLUSION**

The Commission should adopt ORA's variable operating expense forecast as ORA's discovery process has found issues with Cal Am's forecasting in purchased water, chemical costs, uncollectible expenses and Good Will leak adjustment expenses as discussed in this chapter.

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<sup>64</sup> Based on information in Cal Am's response Data Request ORA WW2 -001, Q.003, Attachment 1, provided herein as Attachment 4.

## 1    **CHAPTER 3: RATE DESIGN**

### 2            **A.     INTRODUCTION**

3            Rate Design is the process of setting prices for utility service at  
4    levels that permit a utility to pay all of its costs and collect its total authorized  
5    revenue requirement. Customer rates include a service charge or meter  
6    charge, which is a fixed charge based on meter size (and customer class)  
7    regardless of how much water is consumed, and a volumetric charge for utility  
8    service from metered customers, which is a variable charge based on water  
9    usage.<sup>65</sup> Once Cal Am's revenue requirement is established and the number  
10   of customers and the future consumption level of those customers are  
11   estimated, then the rate structure is designed to determine how Cal Am's  
12   revenue requirement will be collected from its customers. Cal Am's rates and  
13   rate designs differ for each of its districts, and are based on each district's  
14   revenue requirement, customer number estimates, and consumption estimates,  
15   among other factors.

16           ORA analyzed Cal Am's application, supporting work papers,  
17   Minimum Data Requirement exhibit, methods of estimating customer growth,  
18   water consumption, operating revenue, and data request responses before  
19   formulating its recommendation.

### 20           **B.     SUMMARY OF RECOMMENDATIONS**

21           In its current application, Cal Am proposes several changes to its  
22   existing rate designs, and a proposal for rate consolidation among several of  
23   its districts that affects rate design.<sup>66</sup> Cal Am proposes tier breakpoints for  
24   each of the proposed consolidated divisions.<sup>67</sup>

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<sup>65</sup>Testimony of Sherrene Chew at pp. 31-32.

<sup>66</sup>*Id.* at p. 3.

<sup>67</sup>*Id.* at pp. 29-30, 36-37 and 40.

Cal Am's consolidation proposal is addressed in the testimony of Richard Rauschmeier. The following recommendations regarding Cal Am's proposed changes in its rate design are discussed in more detail below:

- The Commission should consider ORA's recommendation regarding a different method of calculating the tier breakpoints for the consolidated Southern Division and the Central Division in order to balance customer bill impacts with state conservation goals. This recommendation is discussed in more detail below.
- The Commission should authorize Cal Am to terminate seasonal pricing in its Los Angeles District.
- The Commission should authorize Cal Am's request to shift from a two to three tier rate design for Sacramento District.<sup>68</sup>

### C. DISCUSSION

Although there is no universal rate design in the water utility industry, Cal Am states that it is important to take affordability of indoor essential water use into consideration, and additionally states that a good rate design should be easy to understand and practical to implement.<sup>69</sup> Cal Am also states that 1) the rate design should remain revenue neutral and fair in treatment to diverse groups of customers, 2) the final customer rates should bear a close relationship to the costs of delivering the water, and 3) any rate changes should adhere to the principle of gradualism.<sup>70</sup>

#### 1) Southern Division

For the proposed Southern Division, Cal Am states that the current rate design was adopted in D.12-11-006 from its 2010 GRC filing and retained in

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<sup>68</sup> Testimony of Sherrene Chew at p.3.

<sup>69</sup> *Id.* at pp. 26-27.

<sup>70</sup> *Id.* at pp. 26-29.

1 D.15-04-007 with minor modifications.<sup>71</sup> Cal Am proposes to eliminate the  
2 seasonal pricing structure in Los Angeles District, and consolidate Ventura  
3 County, San Diego County and Los Angeles County Districts into one  
4 Southern Division.<sup>72</sup>

5 Cal Am states that the Los Angeles District is the only district in the  
6 proposed Southern Division that has different summer (May to October) and  
7 winter (November to April) rates, and Cal Am proposes to terminate the  
8 seasonal pricing structure in this GRC.<sup>73</sup> The seasonal pricing structure  
9 steepens in the top two tiers (6-7% increase in rates for Tier 3 and 9-10%  
10 increase for Tier 4), with “no seasonal pricing on Tier 1 consumption and a  
11 5% increase to winter rates for Tier 2 usage in the summer.”<sup>74</sup> Cal Am asserts  
12 that eliminating the seasonal pricing will simplify the rate structure, making it  
13 easier for the company to maintain and for the customers to understand, while  
14 at the same time reminding customers to conserve water not only in the  
15 summer, but year-round.<sup>75</sup> ORA does not object to this proposal.

16 In general, the residential customers in the Southern Division districts  
17 have an inclining four tiered rate design, where the rate in Tier 1 is set as low  
18 as 74% of the Standard Quantity Rate (“SQR”)<sup>76</sup> and the rate in Tier 2 is set  
19 as high as 205% of the SQR.<sup>77</sup> Non-residential customers are on a single tier  
20 rate structure where the customers pay the same rate for every unit of water  
21 regardless of total consumption. Cal Am states that the single tier rate

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<sup>71</sup> *Id.* at p. 27.

<sup>72</sup> *Id.* p. 64.

<sup>73</sup> Testimony of Sherrene Chew at p. 28.

<sup>74</sup> *Id.* at p. 28, lines 11 – 12.

<sup>75</sup> *Id.* at p. 28.

<sup>76</sup> According to the Testimony of Sherrene Chew at p. 32, Standard Quantity Rate or SQR is defined as (50% of fixed costs + all variable costs)/projected total units of water sold, or the price for each unit of water under uniform rate structure.

<sup>77</sup> Testimony of Sherrene Chew at p. 27.



structure for non-residential customers is due to commercial customers consuming water based on business needs, and that different business' needs can vary significantly.<sup>78</sup> Cal Am asserts that designing a tiered rate structure to take different business needs into consideration demands more resources, and is therefore not very practical.<sup>79</sup>

A comparison of Cal Am's current and proposed consumption distribution for the residential customer class in each of the four tiers, for each district in the proposed Southern Division is summarized in Table 3-1 below.

**Table 3-1: Cal Am's Current and Proposed Consumption Distribution for Districts in the Proposed Southern Division<sup>80</sup>**

	Current Consumption Distribution in %				Proposed Southern Div.
	LA-BH	LA-Duarte	San Diego	Ventura	
<b>Tier 1</b>	47%	38%	56%	40%	52%
<b>Tier 2</b>	21%	25%	22%	26%	38%
<b>Tier 3</b>	26%	27%	15%	23%	5%
<b>Tier 4</b>	6%	10%	6%	11%	5%

Cal Am proposes tier breakpoints for the consolidated Southern Division based on the consumption distribution, with Tier 1 capturing 52% of total projected consumption in the consolidated region, and Tier 2 capturing 38%. Cumulatively in Cal Am's proposed rate design, the first two tiers would capture 90% of total projected consumption.<sup>81</sup> Cal Am states that:

[t]he current rate designs for each Southern Division District capture between 14-27% of total consumption in Tiers 3 and 4. California American Water recalibrated this to 10% for the entire division, which allows more

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<sup>78</sup> *Id.*, pp. 27-28.

<sup>79</sup> *Id.*, pp. 27-28.

<sup>80</sup> *Id.* at p. 30, Table 5.

<sup>81</sup> *Id.* at p. 30, Table 5.

1 consumption in Tier 2 and thus a higher Tier 2 breakpoint  
2 than the 9 ccfs using the summer median.<sup>82</sup>

3 Cal Am proposes to set the Tier 2 breakpoint at 40 ccf for all the  
4 districts being consolidated.<sup>83</sup> This is a much higher breakpoint than any of  
5 the district's existing Tier 2 breakpoints. The existing Tier 2 breakpoints for  
6 the districts being consolidated range from 15 ccf in San Diego to 28 ccf in  
7 San Marino.<sup>84</sup> Cal Am further asserts that the proposed tier breakpoints are  
8 based on "2014 and 2015 billing data to reflect more recent usage patterns  
9 across Los Angeles, San Diego, and Ventura Districts."<sup>85, 86</sup>

10 Cal Am asserts that based on 2013 to 2015 billing history, the Tier 1 and  
11 Tier 2 breakpoints would be 8 and 9 ccf respectively, which will be too close  
12 to each other to create a true "tier."<sup>87</sup> Cal Am explains that setting the Tier 2  
13 breakpoint at 9 ccf would cause customers in San Diego with a 15 ccf  
14 consumption to fall into Tier 3 pricing (i.e. 8 ccf in Tier 1, 1 ccf in Tier 2, and  
15 6 ccf in Tier 3), when under the existing rate design, that same consumption  
16 would not result in pricing higher than Tier 2 (i.e. 8 ccf in Tier 1, and 7 ccf in  
17 Tier 2).<sup>88</sup> Cal Am further asserts that "[its rate design] limits the percentage of  
18 quantity revenue recovery in the fourth tier to 10%, helping to minimize  
19 potential WRAM under-collections."<sup>89</sup>

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<sup>82</sup> *Id.* at pp. 33-34.

<sup>83</sup> *Id.* at p. 30, Table 4, last column.

<sup>84</sup> *Id.* at p. 30, Table 4.

<sup>85</sup> Testimony of Sherrene Chew at p. 29.

<sup>86</sup> The Testimony of Sherrene Chew shows different percentages for the 2013-2015 billing history (stated as 14-27% at p. 33) and "current" consumption (shown in Table 5 at p. 30). The "current consumption" is even higher than that of the 2013-2015 billing history, and ranges from 21% in San Diego to 37% in LA Duarte and San Marino for Tiers 3 and 4 combined. Chew does not specify the time frame for the "current" time period.

<sup>87</sup> *Id.* at p. 33.

<sup>88</sup> *Id.* at p. 33.

<sup>89</sup> *Id.* at p. 34.

1 While Cal Am's example above provides a reasonable explanation of  
2 why the Tier 2 breakpoint should not be set at 9 ccf, Cal Am's explanation  
3 does not justify setting the Tier 2 breakpoint at 40 ccf. Setting the Tier 2  
4 breakpoint for the consolidated Southern Division at a higher level of  
5 consumption than the existing Tier 2 breakpoints for *any* of the stand-alone  
6 rate designs for the districts being consolidated is contrary to conservation  
7 pricing. The need to encourage water conservation is critical; while it is  
8 important to limit WRAM/MCBA undercollections, this GRC will address the  
9 issue through updating the expected sales forecasts per customer as well as the  
10 sales forecasts in each tier, based on recent recorded usage patterns.

11 Cal Am acknowledges that pushing more consumption to the lower tiers  
12 could send the wrong price signals to customers and result in an adverse effect  
13 on conservation.<sup>90</sup> Cal Am's solution is to raise the new Tier 2 rate from  
14 100% of the SQR to 108%. However, raising the new Tier 2 rates from 100%  
15 of the SQR to 108% of the SQR will, all other things being equal, lead to  
16 higher rates for customers with low to average usage (i.e. customers whose  
17 usage currently does not exceed Tier 2).

18 Since the rate model supplied by Cal Am to the Commission and ORA in  
19 this proceeding lacks the ability to automatically adjust rates for changes in  
20 rate design, ORA has been unable to determine customer bill impacts under  
21 different rate design scenarios. Ultimately, ORA recommends caution when  
22 contemplating approval of Cal Am's proposal to approximately double the  
23 width of Tier 2 in all water systems in the proposed Southern Division  
24 because of the potential conflict with conservation messaging. ORA looks  
25 forward to working with Cal Am and intervenors in the proceeding to pursue a  
26 rate design that would appropriately balance customer bill impacts with state  
27 conservation goals. ORA proposes a method of calculating those breakpoints  
28 as described below.

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<sup>90</sup> *Id.* at p. 34.

In Cal Am's existing rate design, when consumption for the individual districts comprising the proposed Southern Division are combined, Tier 1 captures approximately 43.6% of the consumption distribution, and Tier 2 captures approximately 24.4%. Cumulatively, in Cal Am's existing rate design, Tiers 1 and 2 capture approximately 68% of consumption, as seen in Table 3-2 below. This differs significantly from Cal Am's rate design proposal for the Southern Division, which puts 90% of consumption in Tiers 1 and 2.<sup>91</sup>

**Table 3-2: Southern Division Consumption Distribution Summary<sup>92</sup>**

Consumption	LA- BH	LA-DU	LA-SM	San Diego	Ventura	Total	% of Total	Notes <sup>93</sup>
<b>Total (ccf)</b>	1,306,588	2,210,609	4,290,975	4,531,175	6,734,759	19,074,106		A
<b>Tier 1 Distribution</b>	47%	38%	38%	56%	40%			B <sub>1</sub>
<b>Tier 1 (ccf)</b>	614,096	840,031	1,630,571	2,537,458	2,693,904	8,316,060	43.6%	C <sub>1</sub> =AxB <sub>1</sub>
<b>Tier 2 Distribution</b>	21%	25%	25%	22%	26%			B <sub>2</sub>
<b>Tier 2 (ccf)</b>	274,383	552,652	1,072,744	996,859	1,751,037	4,647,675	24.4%	C <sub>2</sub> =AxB <sub>2</sub>
<b>Tier 3 Distribution</b>	26%	27%	27%	15%	23%			B <sub>3</sub>
<b>Tier 3 (ccf)</b>	339,713	596,864	1,158,563	679,676	1,548,995	4,323,811	22.7%	C <sub>3</sub> =AxB <sub>3</sub>
<b>Tier 4 Distribution</b>	6%	10%	10%	6%	11%			B <sub>4</sub>
<b>Tier 4 (ccf)</b>	78,395	221,061	429,098	271,871	740,823	1,741,248	9.1%	C <sub>4</sub> =AxB <sub>4</sub>

Based on this consolidated consumption distribution, and Cal Am's bill frequency count.<sup>94</sup> ORA recommends developing the tier breakpoints by

<sup>91</sup> Testimony of Sherrene Chew at p.30.

<sup>92</sup> In this table, ORA summed up the total consumption from Cal Am's consumption forecast for each district in row A. Row B<sub>n</sub> are consumption distributions for each district from Tier 1 to Tier 4. Row C<sub>n</sub> takes the consumption distribution for each tier and multiplies by the total consumption for that district to get the stand alone consumption distribution. Finally, the column "% of Total" divides rows C<sub>n</sub> by row A, providing the consumption distribution for the consolidated Southern Division for projected consumption for the existing consumption distribution by tier.

<sup>93</sup> Note A: Data in this row is extracted from Cal Am's Rev\_RO files, Cons\_wkpr tabs, Projected Consumption for 2018 columns; Notes B<sub>n</sub>: Data in these rows are from testimony of Sherrene Chew, Table 5 at page 30; Note C<sub>n</sub>: Data in these rows are derived by multiplying corresponding cells located in row A and B.

<sup>94</sup> Cal Am provided this file via electronic mail on February 1, 2017. Part of the emailed document is provided in Attachment 4, as an example.

determining the water usage (ccfs) level associated with each of the consolidated consumption distribution percentages. ORA proposes to work with Cal Am and intervenors in the proceeding to conduct the calculations using this method based on the most updated and accurate data possible to ensure there is an appropriate balance between customer bill impacts and state conservation goals. The following table shows Cal Am's existing and proposed breakpoints for each tier:<sup>95</sup>

**Table 3-3: Comparison of Existing and Proposed Tier Breakpoints**

	Existing Breakpoints (in CCFs)					Cal Am Proposed Consolidated Southern Div.
	LA (BH)	LA (DU)	LA (SM)	San Diego	Ventura	
<b>Tier 1</b>	11	11	13	8	12	10
<b>Tier 2</b>	18	23	28	15	24	40
<b>Tier 3</b>	40	170	75	30	60	67
<b>Tier 4</b>	>40	>170	>75	>30	>60	>67

## 2) Central Division

Cal Am proposes to consolidate Toro, Ambler, Ralph Lane and Garrapata satellite systems.<sup>96</sup> Currently Toro and Ambler each have about 400 customers, with residential customers on a four tiered rate design, while Ralph Lane has 27 customers on a three tiered rate design.<sup>97</sup> Garrapata had approximately 50 unmetered customers on a flat monthly rate.<sup>98</sup> The company installed meters for Garrapata customers in 2016, and proposes to charge these customers metered rates beginning January 1, 2018.<sup>99</sup>

<sup>95</sup> Testimony of Sherrene Chew, Table 4, at p. 30.

<sup>96</sup> *Id.* at p. 39.

<sup>97</sup> *Id.* at pp. 39-40.

<sup>98</sup> *Id.* at p. 40.

<sup>99</sup> *Id.* at p. 40.

1           ORA found a mistake in the table showing the existing Ralph Lane  
2           breakpoints in the Testimony of Sherrene Chew.<sup>100</sup> This table inflates all  
3           the Ralph Lane existing tier breakpoints to 10 times the actual values. Cal  
4           Am shows its tier breakpoints as 80 ccf for Tier 1, 300 ccf for Tier 2, and  
5           over 300 ccf for Tier 3. Actual tier breakpoints should be 8 ccf for Tier 1,  
6           30 ccf for Tier 2, and over 30 ccf for Tier 3.<sup>101</sup> This correction is reflected  
7           in Table 3-5 below.

8           Cal Am's proposed tier breakpoints for the proposed consolidated  
9           Monterey Satellite Systems would capture 50% of total consumption in Tier  
10          1, versus the 33%-42% that is captured in Cal Am's existing rate design for  
11          Toro and Ambler.<sup>102</sup>

12          Similar to the calculation method ORA recommends for Cal Am's  
13          consolidated Southern Division, ORA also calculated the consumption  
14          distribution for these consolidated satellite systems based on the  
15          information Cal Am provided in its testimony. Cal Am did not provide  
16          Ralph Lane's consumption distribution. The following is a summary of  
17          ORA's calculation.

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<sup>100</sup> *Id.*, Table 12.

<sup>101</sup> *Id.*

<sup>102</sup> Testimony of Sherrene Chew at p.41, Table 13.

**Table 3-4: Monterey Satellite System Consumption Distribution**

**Summary<sup>103</sup>**

District Name	Toro	Ambler	Total	% of Total	Notes
<b>Total Consumption (ccfs)</b>	88,862	65,885	154,747		<b>A</b>
<b>Tier 1 Consumption Distribution</b>	33%	42%			<b>B<sub>1</sub></b>
<b>Tier 1 Consumption (ccfs)</b>	29,324	27,672	56,996	37%	<b>C<sub>1</sub>=AxB<sub>1</sub></b>
<b>Tier 2 Consumption Distribution</b>	21%	29%			<b>B<sub>2</sub></b>
<b>Tier 2 Consumption (ccfs)</b>	18,661	19,107	37,768	24%	<b>C<sub>2</sub>=AxB<sub>2</sub></b>
<b>Tier 3 Consumption Distribution</b>	40%	25%			<b>B<sub>3</sub></b>
<b>Tier 3 Consumption (ccfs)</b>	35,545	16,471	52,016	34%	<b>C<sub>3</sub>=AxB<sub>3</sub></b>
<b>Tier 4 Consumption Distribution</b>	6%	4%			<b>B<sub>4</sub></b>
<b>Tier 4 Consumption (ccfs)</b>	5,332	2,635	7,967	5%	<b>C<sub>4</sub>=AxB<sub>4</sub></b>

Based on this consolidated consumption distribution and Cal Am's bill frequency count,<sup>104</sup> ORA recommends developing the tier breakpoints by determining the water usage level associated with each of the consolidated consumption distribution percentages. ORA proposes to work with Cal Am and intervenors in the proceeding to conduct the calculations using this method based on the most updated and accurate data possible to ensure there is an appropriate balance between customer bill impacts and state conservation goals.

The following table shows Cal Am's existing and proposed breakpoints for each tier for the districts that Cal Am proposes to consolidate into the Central Division.

<sup>103</sup> Data in row A shows the total projected consumption presented in Cal Am's respective REV\_RO files. Row B<sub>n</sub> is from the testimony of Sherrene Chew, table 13 at page 41. Row C<sub>n</sub> multiplies the percentage from row B<sub>n</sub> and row A. Based on ORA's calculation, the consumption distribution for the consolidated area for each tier is listed in the "% of Total" column.

<sup>104</sup> Cal Am provided this file via electronic mail on February 1, 2017. Part of the emailed document is provided in Attachment 3 as an example.

**Table 3-5: Comparison of Current and Proposed Breakpoints  
for Satellite Systems (in CCFs)<sup>105</sup>**

	Existing Breakpoints (in CCFs)			Cal Am Proposed Consolidated Satellite Sys.
	Toro	Ambler	Ralph Lane	
<b>Tier 1</b>	12	12	8	8
<b>Tier 2</b>	18	18	30	18
<b>Tier 3</b>	115	115	>30	97
<b>Tier 4</b>	>115	>115	N/A	>97

#### **D. CONCLUSION**

ORA recommends closely examining the impacts of Cal Am's proposal to raise the Tier 2 breakpoint for each of the districts in the proposed Southern Division, since doing so may conflict with conservation goals. The rate model supplied by Cal Am does not possess the ability to automatically adjust tariffed rates for changes in rate design, and ORA has therefore not been able to examine the bill impacts of its proposed calculation methods discussed herein. ORA looks forward to working with Cal Am and other intervenors in the proceeding to establish a rate design that would appropriately balance customer bill impacts with state conservation goals.

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<sup>105</sup> Cal Am's data in this table are from the Testimony of Sherrene Chew, Table 12 at p. 40. The Ralph Lane existing breakpoints are incorrect as discussed above.



## **CHAPTER 4: SPECIAL REQUEST #7 – WAIVE FEES FOR CREDIT CARD PAYMENTS**

In Special Request #7, Cal Am proposes to set up a pilot program that allows the company to waive the credit card transaction fees charged by the third party processing company. According to the company, the current cost for each credit or debit card transaction is \$1.95.

In addition to the fee waiver pilot program, Cal Am requests to add a new memorandum account to track both the fees that have been waived, and the costs savings associated with bank fees and lock box fees.<sup>106</sup> PU Code 755 (2)(b) prohibits the fees to be a burden on customers not using credit cards to pay their bills. On September 9, 2016, the Governor approved AB1180. The bill authorizes any water IOU with over 10,000 customers to seek Commission approval, through GRCs, “to operate a pilot program designed to evaluate customer interest in, and utilization of, bill payment options, including, but not limited to, credit card, debit card, and prepaid card bill payment options, and to assess the cost-effectiveness of, and customer interests served by, customer access to those bill payment options.”<sup>107</sup> The bill limits the duration of the pilot program to the duration of the company’s GRC cycle – in Cal Am’s case, the period from 2018 to 2021. In addition, the bill also prohibits imposing any costs of the pilot program on its low income customers that participate in the Low Income Rate Assistance (LIRA) program, and requires proper notices being served to its customers. Cal Am proposes “Any additional costs associated with the “no fee” program would be recovered in the next rate cycle from all non-LIRA customers.”<sup>108</sup>

ORA recommends approval of Cal Am’s request to implement the pilot program under the terms of AB 1180, and approval of the requested

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<sup>106</sup> Testimony of Jeffrey T. Linam at pp. 25-26.

<sup>107</sup> [https://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB1180](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB1180), accessed 2/9/17.

<sup>108</sup> Testimony of Jeffrey T. Linam at p. 30

1 memorandum account. The preliminary statement for this memorandum  
2 account should specify that any surcharges from the account would not be  
3 recovered from the LIRA customers. Cal Am should return with the results in  
4 its next GRC.

5 In its next GRC, scheduled to be filed July 1<sup>st</sup>, 2019, Cal Am should  
6 report on the results of the pilot program, including quantification of the  
7 benefits and costs as a result of program implementation. The results of the  
8 pilot program should include evaluation of the usefulness of an individual  
9 customer transaction fee, and a recommendation regarding individual  
10 customer transaction fees for credit card, debit card, and prepaid card bill  
11 payments accepted by Cal Am.

## **Attachment 1: Witness Qualifications**

## **QUALIFICATIONS AND PREPARED TESTIMONY OF WENLI WEI**

Q.1 Please state your name and business address.

A.1 My name is Wenli Wei and my business address is 505 Van Ness Ave, San Francisco, CA 94102

Q.2 By whom are you employed and in what capacity?

A.2 I am a Financial Examiner in the Water Branch of the Office of Ratepayer Advocates (ORA).

Q.3 Briefly describe your pertinent educational background.

A.3 I received my MBA with concentration in Accounting from California State University of Hayward in 2006.

Q.4 Briefly describe your professional experience.

A.4 I joined the CPUC in June 2015, and am currently working as a financial examiner in General Rate Case (GRC) proceedings. Prior to joining CPUC, I worked for California Department of Health Care Services from 2006 to 2015, conducting rate setting financial and compliance audits for the statewide Medi-Cal program. In addition, I have obtained and maintained my CPA license in the State of California since 2013.

Q.5 What is your responsibility in this proceeding?

A.5 I am responsible for Operating Expenses (Purchased Power, Purchased Water, Chemicals and uncollectible expenses), Operating Revenues, Rate Design and Special Request #7.

Q.6 Does that conclude your direct testimony?

A.6 Yes, it does.

## **Attachment 2: Revenue Forecast Data Request Responses**

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Melody Singh  
**Title:** Financial Analyst IIB  
**Address:** California American Water  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-004  
**Company Number:** CAW-ORA A.16-07-002 WW2-004 Q001  
**Date Received:** September 29, 2016  
**Date Response Due:** October 11, 2016  
**Subject Area:** Revenue Forecast

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**DATA REQUEST:**

The following questions relates to the Excel work paper "SAC\_CH03\_REV\_RO" :

1. For tab "Cust\_Wkpr" please provide supporting documents for Cell K12 through Cell N39, showing any calculations in detail. For example, for the acquisition of residential customers in 2016, cell K12 shows a hard-coded number of 2,193. For this cell, provide supporting documents and calculations that fully explain why 2,193 residential customers were added in 2016, including breakdowns of each acquisition and developer growth.
  - a. In addition to Sacramento District, please provide the same information for the Monterey Wastewater District (workpaper "MOWW\_CH03\_REV\_RO," "Customers\_Wkpr" tab, Cell M23).

**CAL-AM'S RESPONSE:**

1.

Residential	2016	2017	2018	2019	Notes
Dunnigan	121				Active number of customers at the time of acquisition.

**CAW Response to ORA WW2-004.pdf**

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Melody Singh  
**Title:** Financial Analyst IIB  
**Address:** California American Water  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-004.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-004.2 Q001  
**Date Received:** October 27, 2016  
**Date Response Due:** November 8, 2016  
**Subject Area:** Revenue Forecast Follow Up

---

**DATA REQUEST:**

The following questions relates to the Excel work paper "SAC\_CH03\_REV\_RO":

1. Cal Am's response to DR WW2-004, Q.1 states that 121 customers were acquired from Dunnigan. Sherrene Chew's testimony states at p.5 that Dunnigan provides water and waste water to about 120 customers. D.15-11-012 states at p.3 that Dunnigan has approximately 253 non-metered residential service connections. Please explain the discrepancy.

**CAL-AM'S RESPONSE:**

The 121 customers that are acquired from Dunnigan in the RO model workpaper relates to the number of active services. Sherrene Chew's testimony is accurate, as it reflects about 120 customers. D.15-11-012 states Dunnigan has 253 non-metered residential service connections, of which only 121 are currently active.

---

**A1607002 WW2-004.2 CAW Response.pdf**

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Melody Singh  
**Title:** Financial Analyst IIB  
**Address:** California American Water  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-004.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-004.2 Q002  
**Date Received:** October 27, 2016  
**Date Response Due:** November 8, 2016  
**Subject Area:** Revenue Forecast Follow Up

---

**DATA REQUEST:**

The following questions relates to the Excel work paper "SAC\_CH03\_REV\_RO":

2. Cal Am's response to DR WW2-004, Q1 states that for Geyserville, 267 residential customers and 38 commercial customers will be acquired in 2016, for a total of 305 customers. Geyserville Water Works (GWW) filed AL 39 on 8/16/14 requesting authority to increase its rates, and W-5028 authorizes a general rate increase. On page 1 of W-5028, the background information given indicates that GWW has 315 active service connections. Please explain the discrepancy.

**CAL-AM'S RESPONSE:**

Geyserville's advice letter was filed in 2014 and since then services have been added and subtracted. The numbers in California American Water's response are based on due diligence during the acquisition process. California American Water cannot speak to the validity of Geyserville's filing and customer count.

**A1607002 WW2-004.2 CAW Response.pdf**



**Attachment 3: Purchased Water Data Request Responses (ORA A1607-002  
WW2-002 and WW2-002.2)**

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001a  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

---

**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named "ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - a. Tab LACBH:
    - i. Cells G20 to J26
    - ii. Cell F4

**CAL-AM'S RESPONSE:**

Supporting documents and calculations for Cells G20 to J26 and Cell F4 include:

- i. Supporting documents and calculations for Cells G20 to J26 include:
  - a. For Cell G20 refer to "ORA WW2-002 Q001a - Attachment 2". Please note that the latest invoice for West Basin Municipal Water District shows \$1,254 per acre foot (AF) instead of the \$1,204 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
  - b. For cell G21 refer to "ORA WW2-002 Q001a - Attachment 5". Please note that the latest invoice shows \$4,533 per month instead of the \$4,794 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
  - c. For Cell G22 refer to "ORA WW2-002 Q001a – Attachment 5". Please note that the latest invoice shows \$1,220 per month instead of the \$1,042

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.

- d. For Cell G23 refer to "ORA WW2-002 Q001a - Attachment 4". Please note that the latest invoice shows \$1,860.30 per year instead of the \$2,067 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
  - e. For Cell G24 refer to "ORA WW2-002 Q001a - Attachment 7". Please note that the latest invoice shows \$863 per month instead of the \$749 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
  - f. For Cell G25 refer to "ORA WW2-002 Q001a - Attachment 6". Please note that the latest invoice shows \$0.50 per acre foot (AF) instead of the \$1.20 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
  - g. For Cell G26 refer to "ORA WW2-002 Q001a - Attachment 3".
- ii. "ORA WW2-002 Q001a - Attachment 1", in particular page 94 of Attachment 1 shows the pumping right of 2,067 AF.

Please note that the timing of this response corresponds to a new water year (2016-2017) in Los Angeles, which may include new or revised prices. California American Water may provide a future supplement to update the information herein.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001b  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

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**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named  
"ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - b. Tab LACDU:
    - i. Cells H27 to K33
    - ii. Cells G4 to G6.

**CAL-AM'S RESPONSE:**

Supporting documents and calculations for Cells H27 to K33 and Cells G4 to G6 include:

- i. Supporting documents and calculations for Cells H27 to K33 include:
  - a. For cell H 27 refer to "ORA WW2-002 Q001b - Attachment 1". Please note that the latest invoice shows \$45.00 instead of \$45.99 which California American Water is amenable to reflecting in the hundred day update.
  - b. For cell H 29 refer to "ORA WW2-002 Q001b - Attachment 3"
  - c. For cell H 31 refer to "ORA WW2-002 Q001b - Attachment 4"
  - d. For cell H 32 refer to "ORA WW2-002 Q001b - Attachment 5". Please note that the latest invoice shows \$85.24 instead of \$55.24 which California American Water is amenable to reflecting in the hundred day update.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

- e. For cell H 33 refer to "ORA WW2-002 Q001b - Attachment 6".
- ii. For cells G4 and G5 refer to "ORA WW2-002 Q001b - Attachment 2". For cell G6 refer to "ORA WW2-002 Q001b - Attachment 1". Please note that the latest invoice shows \$869.00 instead of \$797.00 which California American Water is amenable to reflecting in the hundred day update.

Please note that the timing of this response corresponds to a new water year (2016-2017) in Los Angeles which may include new or revised prices. California American Water may provide a future supplement to update the information herein.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001c  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

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**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named  
"ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - c. Tab LACSM:
    - i. Cells G36 to J53
    - ii. Cells G3 to G10

**CAL-AM'S RESPONSE:**

- i. Supporting documents and calculations for Cells G36 to J53 include:
  - a. There was an error in the presented numbers which California American Water is amenable to correcting in hundred day update. Supporting documents and calculations for the correct amount for Cells G36 to J37 include the documents found in "ORA WW2-002 Q001c - Attachment 8."
  - b. For cell G40 refer to "ORA WW2-002 Q001c - Attachment 15".
  - c. For cell G41 refer to "ORA WW2-002 Q001c - Attachment 14". Please note that the latest invoice shows \$822.12 per month instead of the \$911.75 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
  - d. For cell G42 refer to "ORA WW2-002 Q001c - Attachment 11". Please note that the latest invoice shows \$630.64 per month instead of the

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

\$673.18 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.

- e. For cell G43 refer to "ORA WW2-002 Q001c - Attachment 12". Please note that the latest invoice shows \$1,264.66 per month instead of the \$1,213.71 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
- f. For cell G44 refer to "ORA WW2-002 Q001c - Attachment 9".
- g. For cell G52 refer to "ORA WW2-002 Q001c - Attachment 13". Please note that the latest invoice shows \$942.00 per month instead of the \$943.30 shown in the RO model. California American Water is amenable to reflecting this in the hundred day update.
- h. For cell G53 refer to "ORA WW2-002 Q001c - Attachment 10".

ii. Supporting documents and calculations for Cells G3 to G10 include:

- i. For cell G3 refer to "ORA WW2-002 Q001c - Attachment 1."
- j. For cell G4 refer to "ORA WW2-002 Q001c - Attachment 2."
- k. For cell G5 refer to "ORA WW2-002 Q001c - Attachment 3."
- l. For cell G6 refer to "ORA WW2-002 Q001c - Attachment 4." For cell G7 refer to "ORA WW2-002 Q001c - Attachment 5." Please note that the latest invoice shows \$869.00, instead of \$797.00, which California American Water is amenable to reflecting in the hundred day update.
- m. For cell G8 refer to "ORA WW2-002 Q001c - Attachment 3." Please note that the latest document shows 14.04 AF, instead of 19.66 AF, which California American Water is amenable to reflecting in the hundred day update.
- n. For cell G9 refer to "ORA WW2-002 Q001c - Attachment 6."
- o. For cell G10 refer to "ORA WW2-002 Q001c - Attachment 7."

Please note that the timing of this response corresponds to a new water year (2016-2017) in Los Angeles which may include new or revised prices. California American Water may provide a future supplement to update the information herein.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001d  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

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**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named  
"ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - d. Tab LKD:
    - i. Cells G12 and G17

**CAL-AM'S RESPONSE:**

Per discussion with the operations team, purchased water projections are based upon an assumed purchase of 37.88% of the total production. This is based upon allowed purchase water amounts from the vendor and the total production. Our contract with Sonoma County Water Agency allows for purchase of up to 700 acre feet per year. Operations attempts to stay slightly under 40% purchased water in the system. Thus, for example, in 2016 projected water purchases are 306.52 acre feet and total production is projected at 809.19 acre feet:  $306.52/809.19 = 0.3788 \times 100 = 37.88\%$ .



California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001e  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

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**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named "ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - e. Tab SAC:
    - i. Cells G24 to J34
    - ii. Cells K15 to K18 (provide documents that explain the percentage allocations)

**CAL-AM'S RESPONSE:**

- i. Supporting documents and calculations for Cells G24 to J34 include the document included with ORA WW2-002 Q001e - Attachment 1. Please note that the latest invoice shows \$1,485.75, instead of \$1,815, which California American Water is amenable to reflecting in the hundred day update.
- ii. California-American Water Company ("California American Water") objects to this specific request on the grounds it is vague and ambiguous in that fails to provide sufficient detail for California American Water to provide an answer. Subject to and without waiving this objection, California American Water responds as follows. Per discussion with the operations team, these are allocation percentages of the overall purchase water projection based upon historical purchases and contracted allowances. Additionally,

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

PCWA

Service for November 2015 Crowder:

11,103,013 gallons = 34.1 Acre feet

volumetric cost was \$18,452.33 for the same period

$\$18,452.33 / 34.1 \text{ Acre Feet} = \$541.12 / \text{Acre foot}$

This was used as a base for the estimate which can vary upward as the purchase water rates are variable based upon purchases amounts.

City of Sacramento

Service for October 2015 City of Sacramento (No Water was purchased in November)

35,476,300 gallons = 108.9 Acre feet

volumetric cost was \$46,133.38 for the same period

$\$46,133.38 / 108.9 \text{ Acre Feet} = \$423.63 / \text{Acre foot}$

This was used as a base and increased by operations in anticipation of regular September rate increase by the City of Sacramento.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001f  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

---

**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named  
"ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - f. Tab SDC:
  - i. Cell G14

**CAL-AM'S RESPONSE:**

Supporting documents and calculations for Cell G14 includes the documents in ORA WW2-002 Q001f - Attachment 1.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002  
**Company Number:** CAW-ORA A.16-07-002 WW2-002-Q001g  
**Date Received:** August 23, 2016  
**Date Response Due:** September 1, 2016  
**Subject Area:** Purchased Water

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**DATA REQUEST:**

The following questions relate to Cal Am's Excel file named  
"ALL\_CH04\_O&M\_WP\_Purchased Water."

1. Please provide supporting documents with detailed calculations for the cells listed below:
  - g. Tab VEN:
    - i. Cells H16, H17, H21 and H22

**CAL-AM'S RESPONSE:**

Supporting documents and calculations for Cells H16, H17, H21 and H22 include the documents provided in ORA WW2-002 Q001g - Attachment 1.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-002.2-Q001  
**Date Received:** September 7, 2016  
**Date Response Due:** September 13, 2016  
**Subject Area:** Purchased Water Follow Up

---

**DATA REQUEST:**

1. Cal Am's response to Question 1.b.i omitted cell H30. Please provide the missing information, or explain why Cal Am did not provide that information.

**CAL-AM'S RESPONSE:**

There was an error in the presented numbers which California American Water is amenable to correcting in hundred day update. Supporting documents and calculations for the correct amount for Cell H30 are included in "ORA WW2-002.2 Q001 - Attachment 1."

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-002.2-Q002  
**Date Received:** September 7, 2016  
**Date Response Due:** September 13, 2016  
**Subject Area:** Purchased Water Follow Up

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**DATA REQUEST:**

2. Cal Am's response to Question 1.b.ii stated "Please note that the latest invoice shows \$869.00 instead of \$797.00 which California American Water is amenable to reflecting in the hundred day update." Please submit the latest complete invoice.

**CAL-AM'S RESPONSE:**

Please refer to provided "ORA WW2-002 Q001b - Attachment 1" Page 3.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

<b>Response Provided By:</b>	<b>Bahman Pourtaherian</b>
<b>Title:</b>	<b>Financial Analyst IIA</b>
<b>Address:</b>	<b>California-American Water Company 4701 Beloit Drive, Sacramento, CA 95838</b>
<b>ORA Request:</b>	<b>ORA A.16-07-002 WW2-002.2</b>
<b>Company Number:</b>	<b>CAW-ORA A.16-07-002 WW2-002.2-Q003</b>
<b>Date Received:</b>	<b>September 7, 2016</b>
<b>Date Response Due:</b>	<b>September 13, 2016</b>
<b>Subject Area:</b>	<b>Purchased Water Follow Up</b>

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**DATA REQUEST:**

3. For Question 1.c.ii.I, please submit the latest complete invoice.

**CAL-AM'S RESPONSE:**

Please refer to provided "ORA WW2-002 Q001C - Attachment 5" Page 3.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Bahman Pourtaherian  
**Title:** Financial Analyst IIA  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-002.2-Q004  
**Date Received:** September 7, 2016  
**Date Response Due:** September 13, 2016  
**Subject Area:** Purchased Water Follow Up

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**DATA REQUEST:**

4. For Tab LKD, please provide supporting documentation for cell G20.

**CAL-AM'S RESPONSE:**

Please refer to "ORA WW2-002.2 Q004- Attachment 1".



California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Stephen A. Foster  
**Title:** Director of Operations-Northern Division  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-002.2-Q005  
**Date Received:** September 7, 2016  
**Date Response Due:** September 13, 2016  
**Subject Area:** Purchased Water Follow Up

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**DATA REQUEST:**

5. In the initial data request, Question 1.e.i requests support for cells G24 to J34. Cal Am only provided support for G24. Support for cells G25 to G34 were not provided. Please provide the missing information or explain why Cal Am did not provide that information.

**CAL-AM'S RESPONSE:**

- i. For cell G25 refer to ORA WW2-002.2 Q005- Attachment 3". Please note that the latest invoice shows \$146,799 annual installment equal to \$12,233 per month instead of the \$15,218 per month shown in the RO model.
- ii. For cell G26 refer to "ORA WW2-002.2 Q005- Attachment 1". Please note that the latest invoice shows \$4,599.67 per month instead of the \$4,583 per month shown in the RO model.
- iii. For cell G31 refer to the previously provided "ORA WW2-002 Q001e - Attachment 1" page 3. Please note that the latest invoice shows \$1.3004 per CCF which converts to \$566.45 AF instead of the \$471 per AF shown in the RO model.
- iv. For cell G32, California American Water will update its response to this item when it receives information from the County of Sacramento.
- v. For cell G33 refer to "ORA WW2-002.2 Q005- Attachment 1".

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

- vi. For cell G34 refer to "ORA WW2-002.2 Q005- Attachment 2". Please note that the latest invoice shows \$ 80.69 per AF instead of the \$166 per AF shown in the RO model.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Stephen A. Foster  
**Title:** Director of Operations-Northern Division  
**Address:** California-American Water Company  
4701 Beloit Drive, Sacramento, CA 95838

**ORA Request:** ORA A.16-07-002 WW2-002.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-002.2-Q006  
**Date Received:** September 7, 2016  
**Date Response Due:** September 13, 2016  
**Subject Area:** Purchased Water Follow Up

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**DATA REQUEST:**

6. Question 1.e.ii is non-responsive, please provide explanation and supporting documentation for how Cal Am arrived at the percentage allocations in cells K15 to K18. Please also explain where the numbers referenced in your previous response are located in the work papers submitted.

**CAL-AM'S RESPONSE:**

California American Water objects to this request to the extent it is argumentative, erroneous, and misstates the facts. Subject to these objections, California American Water responds as follows: Please refer to ORA WW2-002.2 Q006- Attachment 1 for details of the calculation. The percentage allocations are based on operations experience in running the system and agreements with the various agencies as noted below. I am also aware that California American Water has a Modified Cost Balancing Account ("MCBA") in place that tracks the difference between adopted and recorded purchased water costs. While California American Water strives to make reasonable forecasts, should less water be purchased as compared to authorized, the savings would go back to customers through the MCBA.

Comments for water sources are as follow:

1. City of Sacramento: Wholesale agreement allows up to 4,955 Acre Feet which converts to 2,158,383 CCF. In 2012 Cal Am purchased 923,036 CCF and increased this amount for forecasting purposes to anticipate an increase in purchases. Please refer to ORA WW2-002.2 Q006- Attachment 2.
2. Sacramento County Water Agency: This is a new connection and the allocation percentage was a placeholder in anticipation of growth in Security Park Area.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

3. Placer County Water Agency: PCWA has confirmed 1,090 Acre Feet which converts to 474,801 CCF for Cal Am use. Cal Am lowered this number to 374,000 CCF in its estimation to anticipate continuation of conservation in this service area. Please refer to ORA WW2-002.2 Q006 - Attachment 2.
4. Sac Suburban: Contractual entitlement to Surface Water Deliveries is 2000 Acre Feet which converts to 871,200 CCF. Cal Am lowered its estimation to reflect the limitation of this source by flow on the Lower American River. Please refer to ORA WW2-002.2 Q006 - Attachment 3.

## **Attachment 4: ORA's Leak Adjustment Calculation Support**

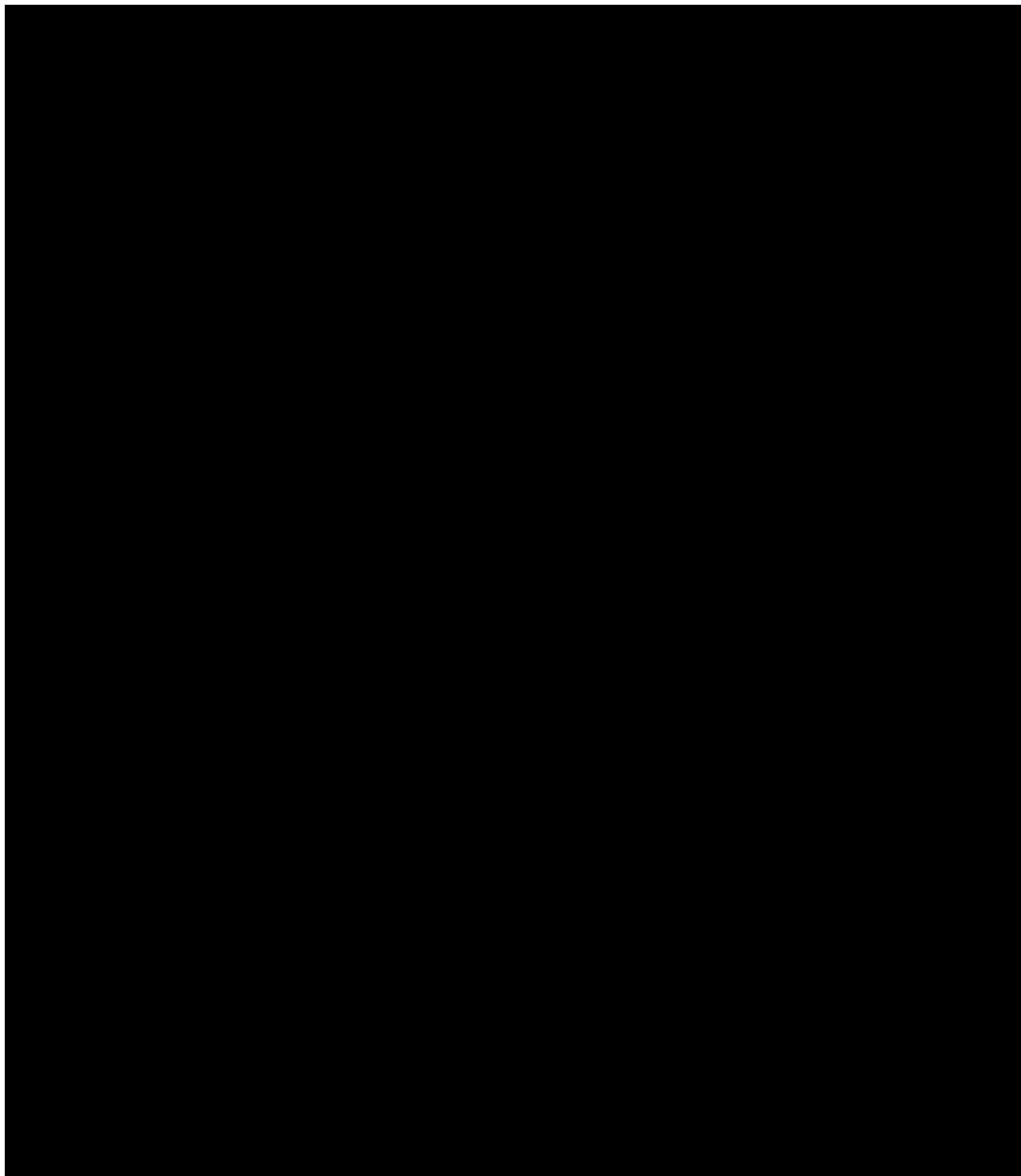
Leak Adjustment Expense												Average	Average
District #	District	Recorded					Projected					Leak Adjustment	Dollar per
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Per Customer	Leak Adjustment
1501	CAW Corporate												
1530	San Diego County District					34,482	34,482	34,482	18,970	18,970		0.50%	\$ 334.77
1540	Monterey County District	2,188,537	2,071,889	1,559,132	1,316,815	3,718,023	3,017,419	3,017,419	1,417,702	1,417,702		6.62%	\$ 1,431.11
1542	Monterey Wastewater												
1548	Monterey - Toro					8,831	8,831	8,831	8,831	8,831			
1549	Monterey - Garrapata												
1550	Los Angeles County District					29,019	29,019	29,019	19,144	19,144		0.35%	\$ 302.28
1551	Ventura County District					24,627	24,627	24,627	11,214	11,214		0.54%	\$ 219.89
1552	LA-Baldwin Hills												
1553	LA-Duarte												
1554	LA-San Marino												
1555	Monterey - Ambler												
1560	Sacramento District					20,618	20,618	20,618	20,618	20,618		0.26%	\$ 134.76
1561	Larkfield District					7,244	7,244	7,244	7,244	7,244		1.48%	\$ 206.98
												0.63%	\$ 239.74
End	End	End	End	End	End	End	End	End	End	End	End		

Avg Customers excluding fire service											
District #	District	Recorded					Projected				
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1501	CAW Corporate										
1530	San Diego County District					20,759	20,808	20,869	20,930	20,991	
1540	Monterey County District					39,230	39,367	39,367	39,367	39,367	
1542	Monterey Wastewater										
1548	Monterey - Toro										
1549	Monterey - Garrapata										
1550	Los Angeles County District					27,463	27,542	27,639	27,650	27,661	
1551	Ventura County District					20,746	20,770	20,813	20,856	20,899	
1552	LA-Baldwin Hills					6,202	6,203	6,207	6,211	6,215	
1553	LA-Duarte					7,321	7,323	7,326	7,329	7,332	
1554	LA-San Marino					13,940	14,016	14,106	14,110	14,114	
1555	Monterey - Ambler										
1560	Sacramento District					58,126	58,683	59,347	59,879	60,872	
1561	Larkfield District					2,368	2,371	2,375	2,379	2,383	

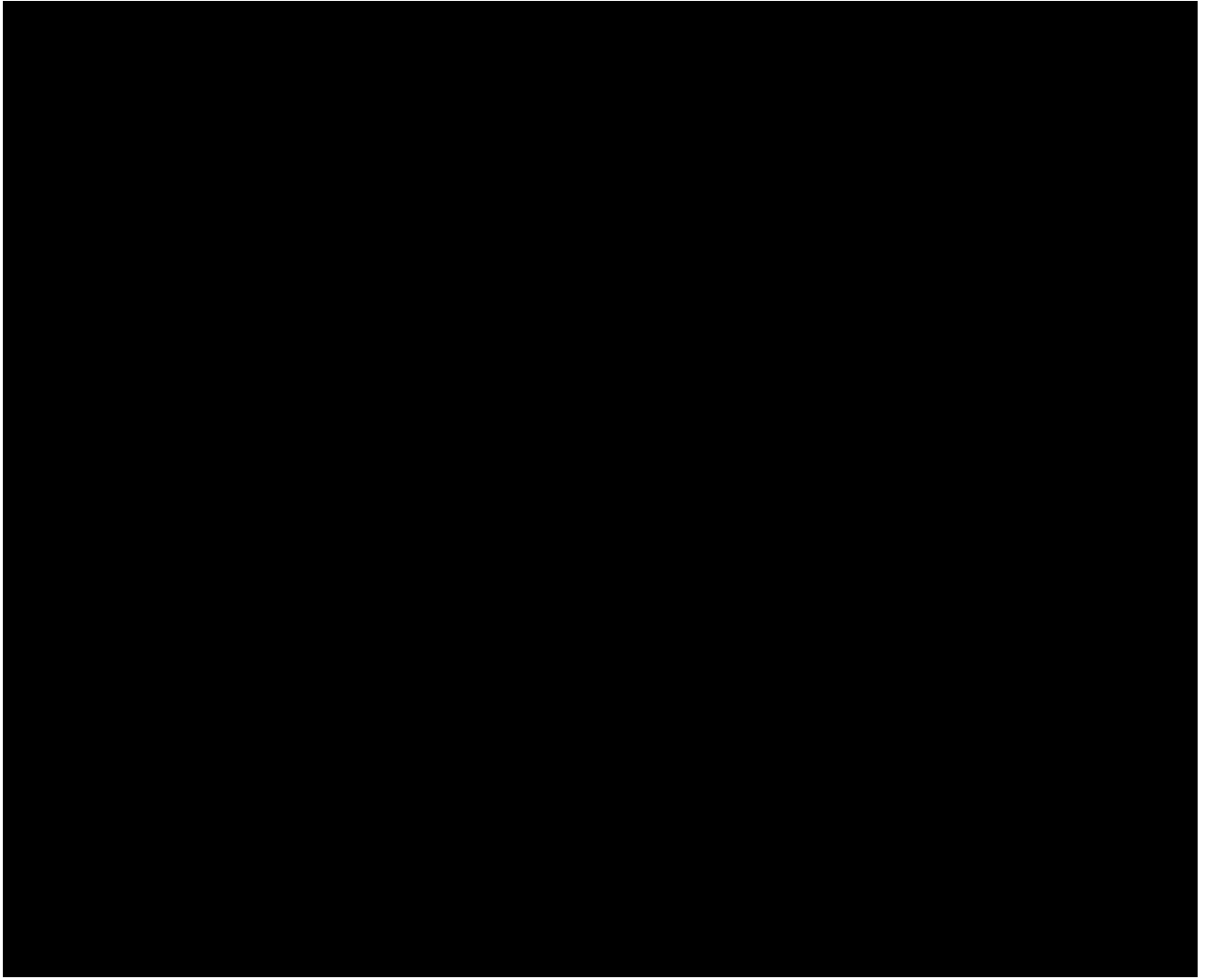
Leak Adjustment

ORA WW2-001 Q003 Attachment 1.xlsx









**Attachment 6: Five Signs of Abuse of Leak Adjustments in Cal Am's Monterey District**

**PUBLIC VERSION**

1 **Five Signs of Abuse of Leak Adjustments in Cal Am's Monterey District**

2  
3 **1. Duplicate Recorded Leak Adjustments** \*\*\*BEGIN CONFIDENTIAL\*\*\*

4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]

10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED] \*\*\*END CONFIDENTIAL\*\*\*

17 **2. Cal Am presented no evidence that** \*\*\*BEGIN CONFIDENTIAL\*\*\* [REDACTED]

18 [REDACTED] \*\*\*END  
19 CONFIDENTIAL\*\*\*

20 Cal Am's internal confidential policy states that \*\*\*BEGIN CONFIDENTIAL\*\*\*

21 [REDACTED]  
22 [REDACTED] \*\*\*END CONFIDENTIAL\*\*\*

23 However, no evidence from Cal  
24 Am's submitted documentation to justify leak adjustments indicates Cal Am has pursued  
25 this avenue. The company bypassed this important step, which is critical to reduce the  
26 costs that are borne by all ratepayers in the district.

**3. Weaknesses in Cal Am's Leak Adjustment Policy**

<sup>109</sup> \*\*\*BEGIN CONFIDENTIAL\*\*\* [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED] \*\*\*END CONFIDENTIAL\*\*\*

<sup>110</sup> Cal Am's response to ORA DR WW2-001.3 Q001.

<sup>111</sup> Cal Am's response to ORA WW2-001.3 Q001, included herein as Attachment 11

1 Cal Am submitted its internal confidential policy in giving out leak adjustments,

2 \*\*\*BEGIN CONFIDENTIAL\*\*\*

21 \*\*\*END CONFIDENTIAL\*\*\*

22 4. \*\*\*BEGIN CONFIDENTIAL\*\*\*

<sup>112</sup> Cal Am response to Data Request ORA A.16-07-002 WW2 001.3 Q002 Attachment 2 Confidential Customer Privacy.pdf, provided herein as Attachment 10

<sup>113</sup> Cal Am response to Data Request ORA A.16-07-002 WW2 001.2, provided herein as Attachment 11.

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED] \*\*\*END CONFIDENTIAL\*\*\*

5 **5. Lack of proper supporting documentation**

6 When asked about the justification and support for the top ten leak adjustments  
7 given to its customers, Cal Am submitted responses that are not well documented and  
8 supported. Cal Am should be keeping detailed records to support and justify each leak  
9 adjustment. \*\*\*BEGIN CONFIDENTIAL\*\*\* [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED] \*\*\*END

16 CONFIDENTIAL\*\*\* However, each invoice should take less than a minute to print; ten  
17 customers times 24 invoices at one minute per invoice should take roughly four hours to  
18 print and scan into pdf files. Furthermore, Cal Am did not submit all the requested 24  
19 monthly bills for each of the ten customers sampled. Cal Am did not explain why certain  
20 invoices were not submitted. Overall, the invoices Cal Am submitted were not organized  
21 clearly, and were not cross-referenced, making it time-consuming for ORA to check each  
22 of the customers' 24 monthly bills.

<sup>114</sup> Cal Am response to Data Request ORA A.16-07-002 WW2 001.3 Q002 Attachment 12 Confidential Customer Privacy.pdf, provided herein as Attachment 12.

<sup>115</sup> Cal Am's response to Data Request in "ORA WW2 001.3 Q002 Attachment 6 Confidential Customer Privacy.pdf", pp. 20-27. On p. 20 of 52, \*\*\*BEGIN CONFIDENTIAL\*\*\* [REDACTED]  
[REDACTED] \*\*\*END  
CONFIDENTIAL\*\*\*

1 Finally, it is also worth mentioning that good will leak adjustments are utilized not  
2 only for identified leak adjustments \*\*\*BEGIN CONFIDENTIAL\*\*\* [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

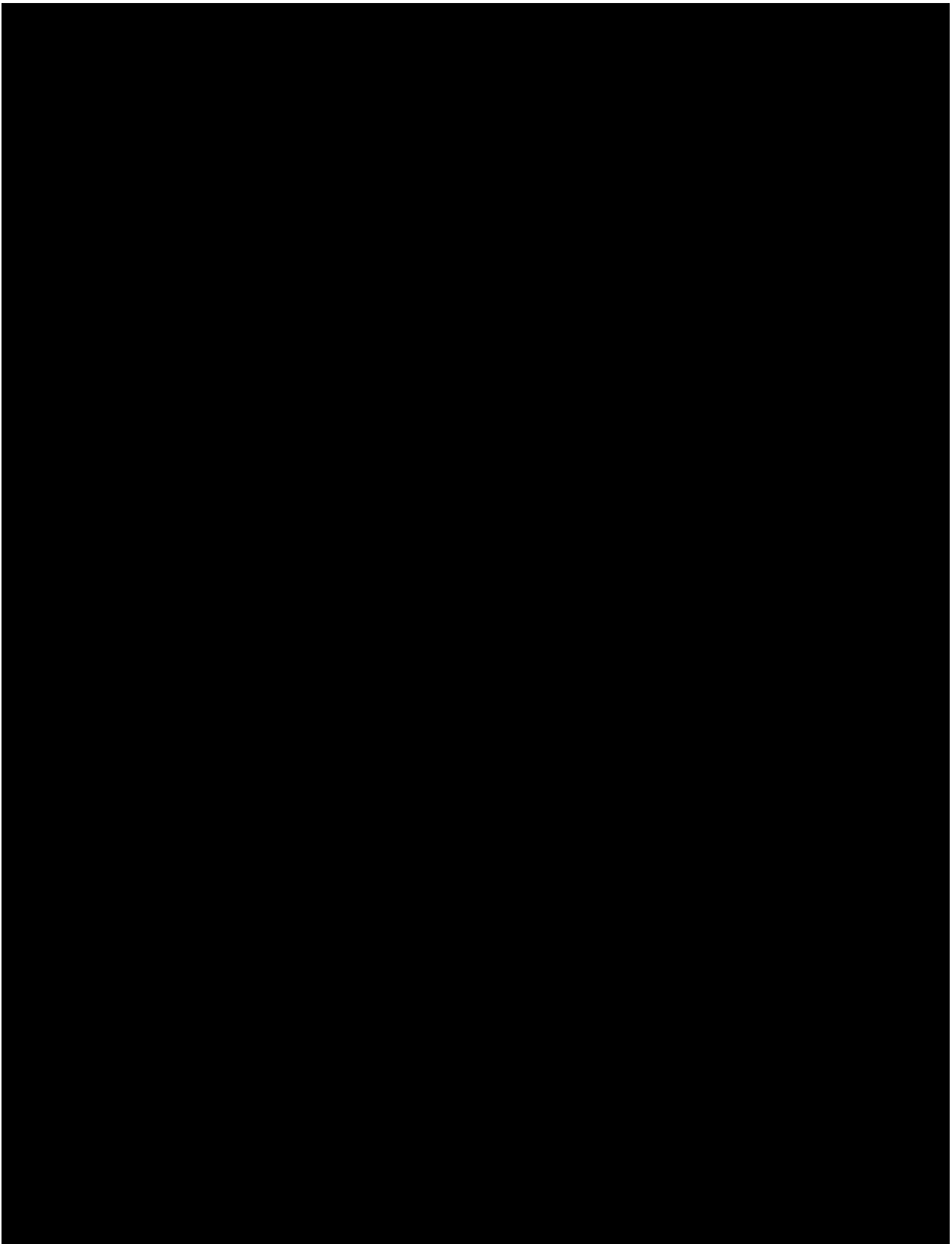
7 [REDACTED]

8 \*\*\*END CONFIDENTIAL\*\*\* These adjustments are meant to represent *the company's*  
9 good will. These costs should not be borne by the majority ratepayers without adequate  
10 documentation and justification by Cal Am regarding the reasonableness and rationale for  
11 the adjustments.

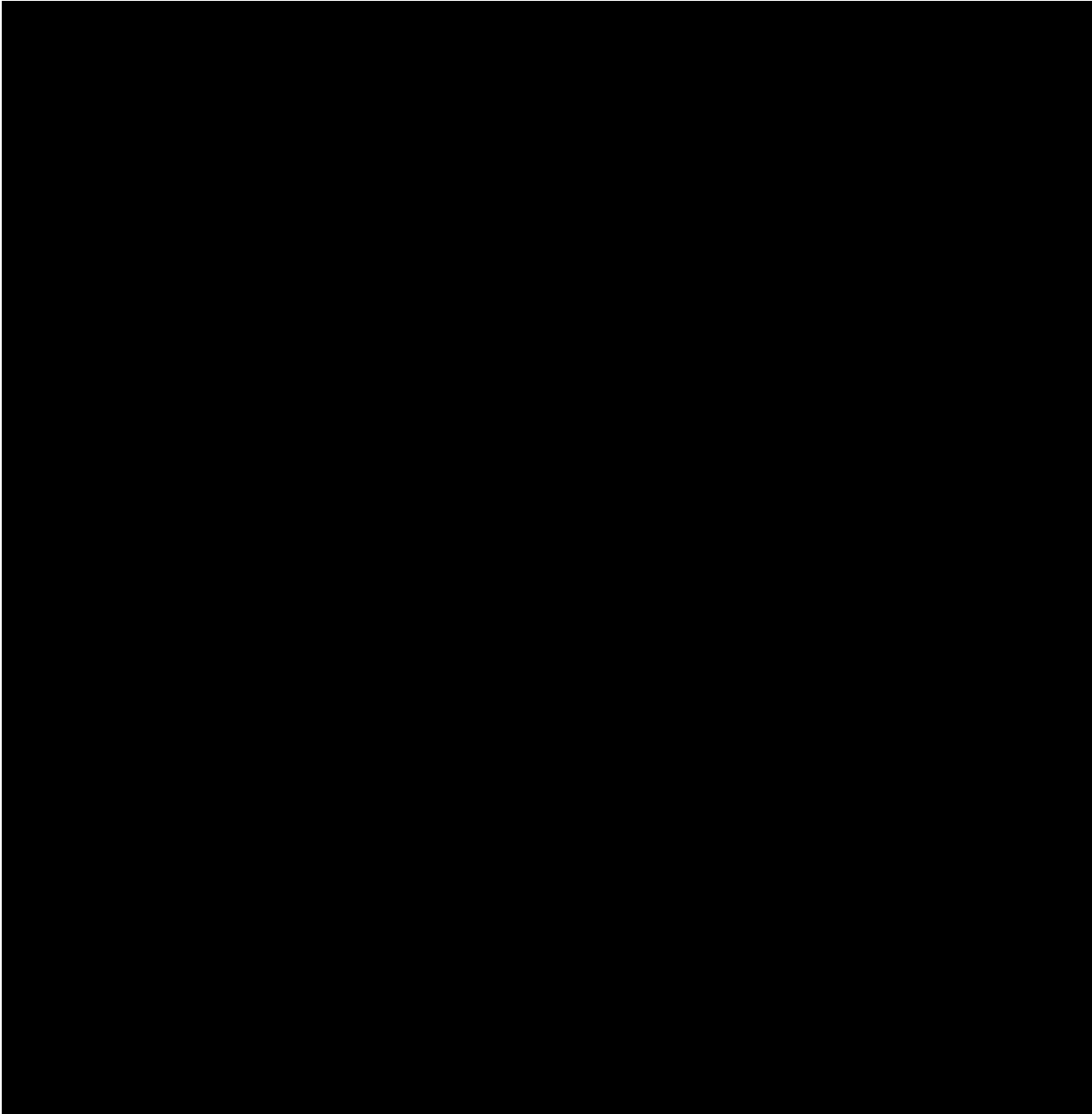
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<sup>116</sup> ORA WW2-001.2 Q004 Attachment Confidential.pdf provided herein as Attachment 8.

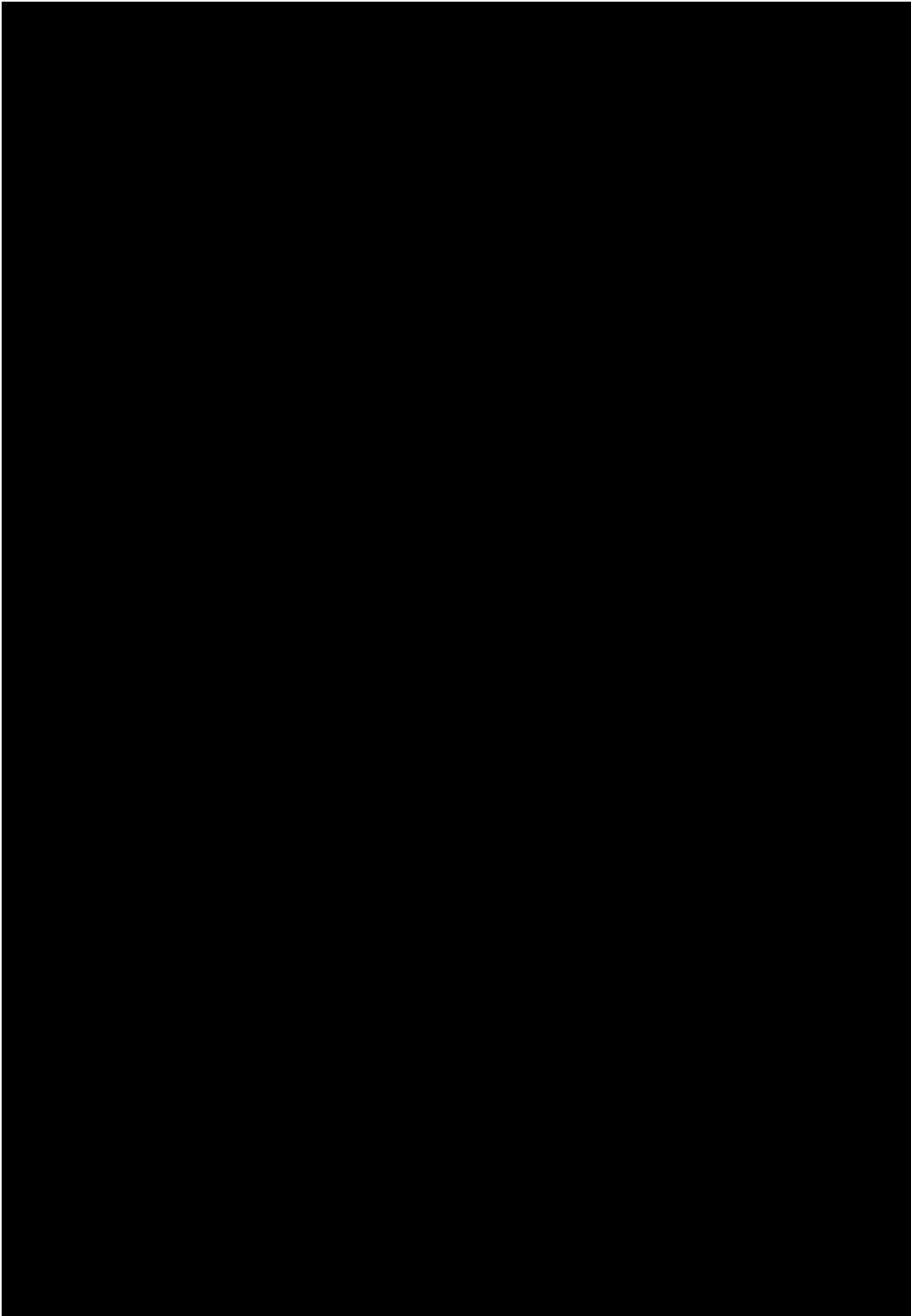
**Attachment 7: Duplicate Leak Adjustment Entries - CONFIDENTIAL**





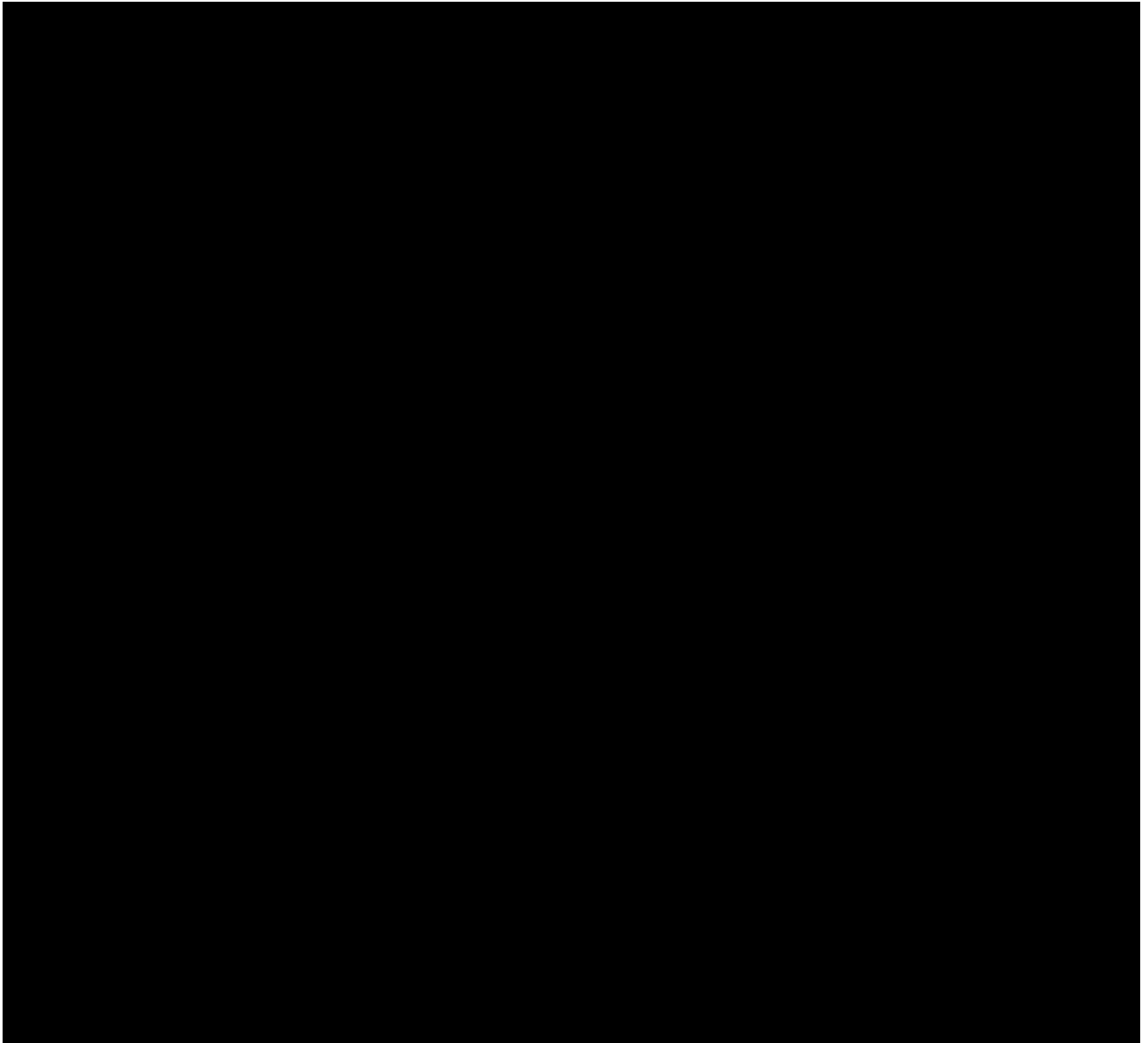


**Attachment 8: Good Will Leak Adjustment and Unexplained High Usage Policy  
and Procedures - **CONFIDENTIAL****

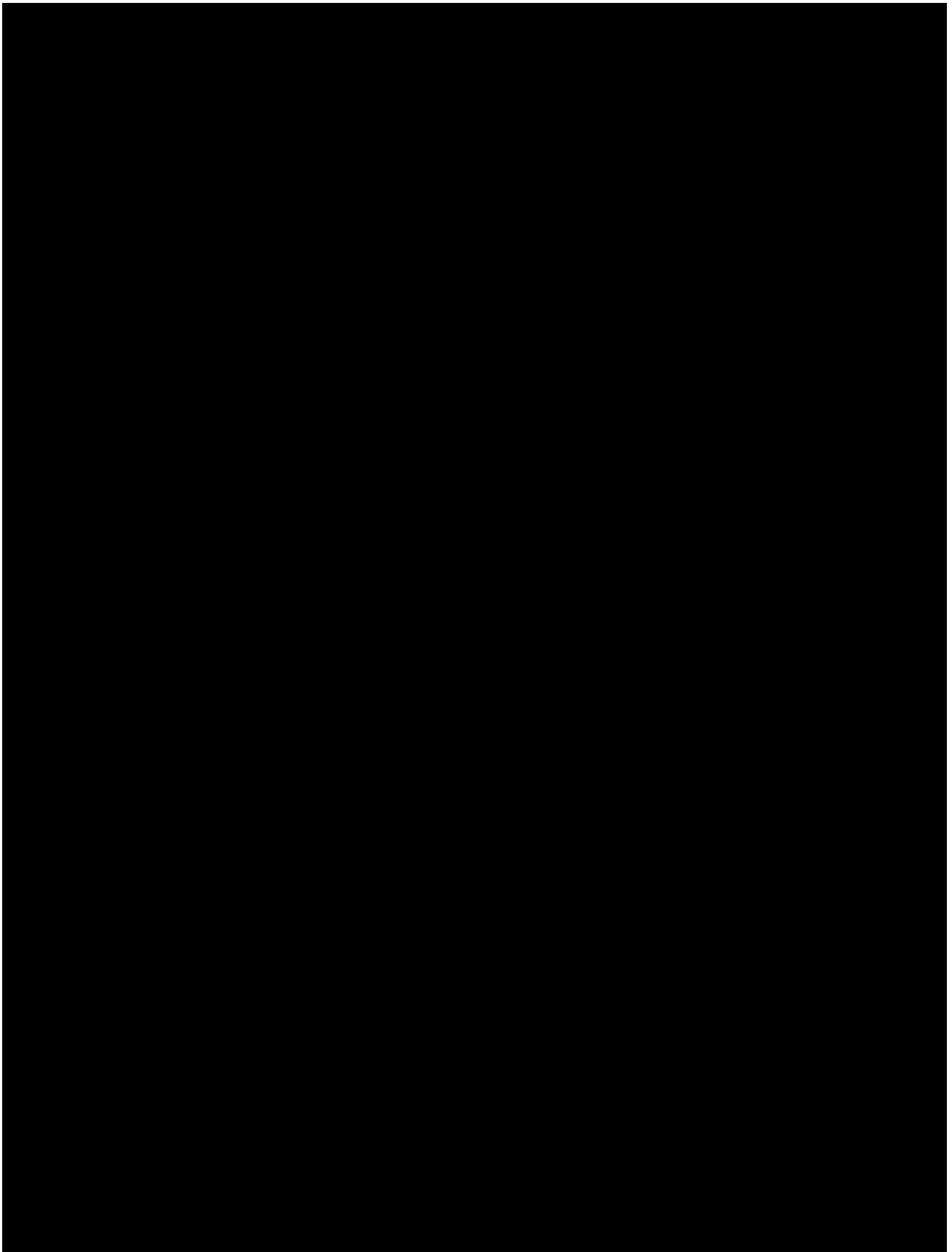


**Attachment 9: Top 10 Leak Adjustment Customer Bills from Cal Am response  
to Data Request ORA A.16-07-002 WW2-001.2, Q.5. – **CONFIDENTIAL****

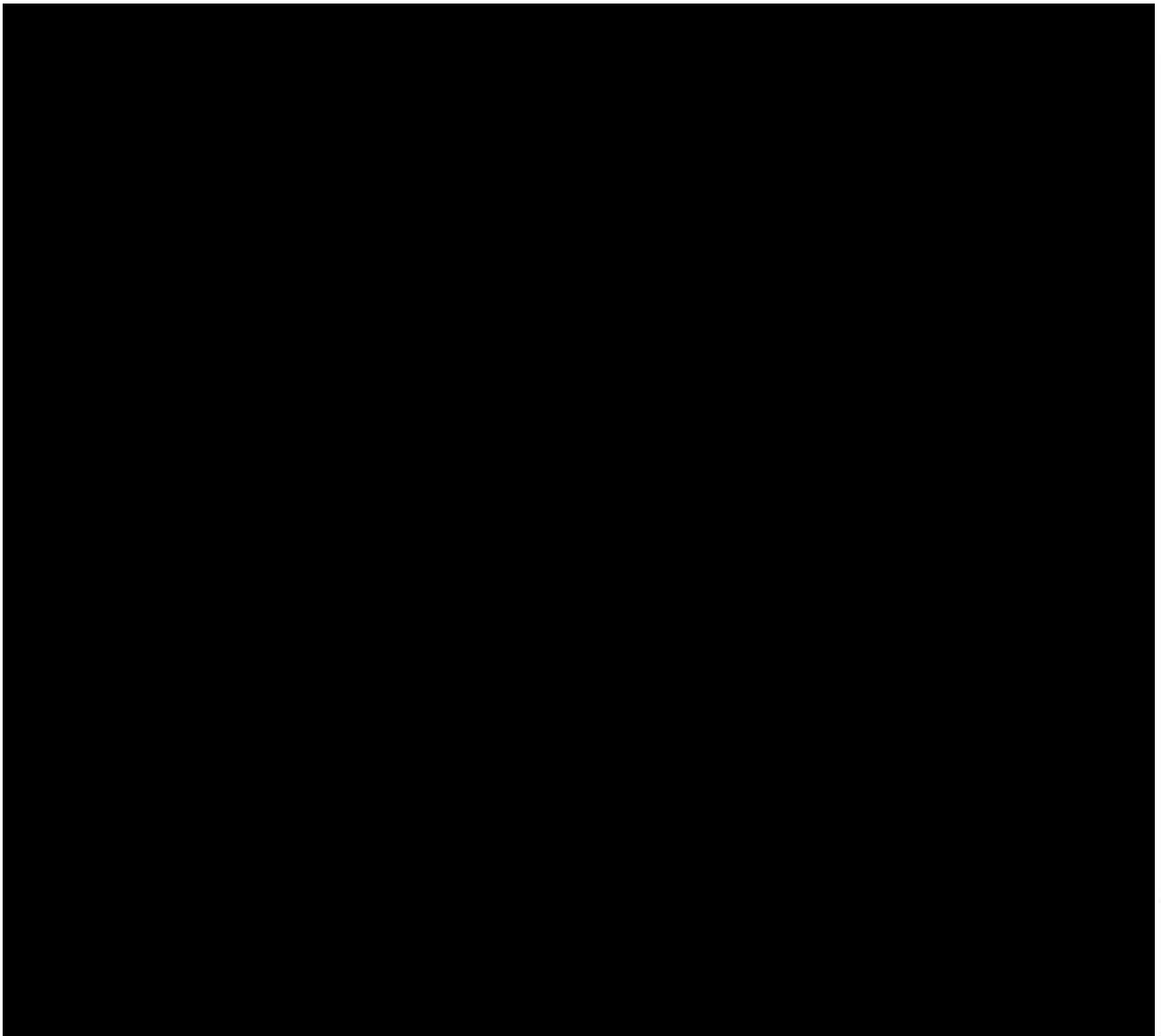


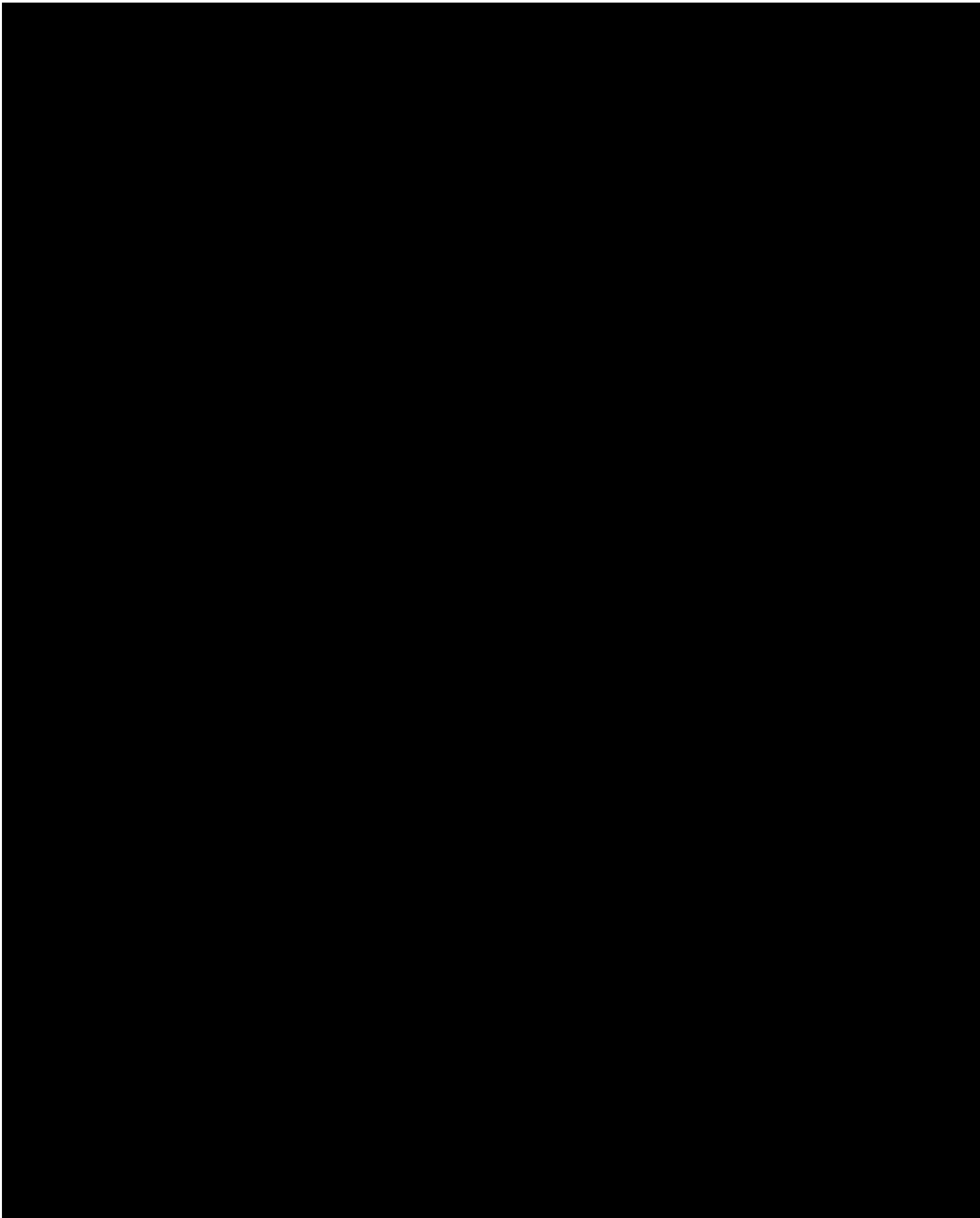


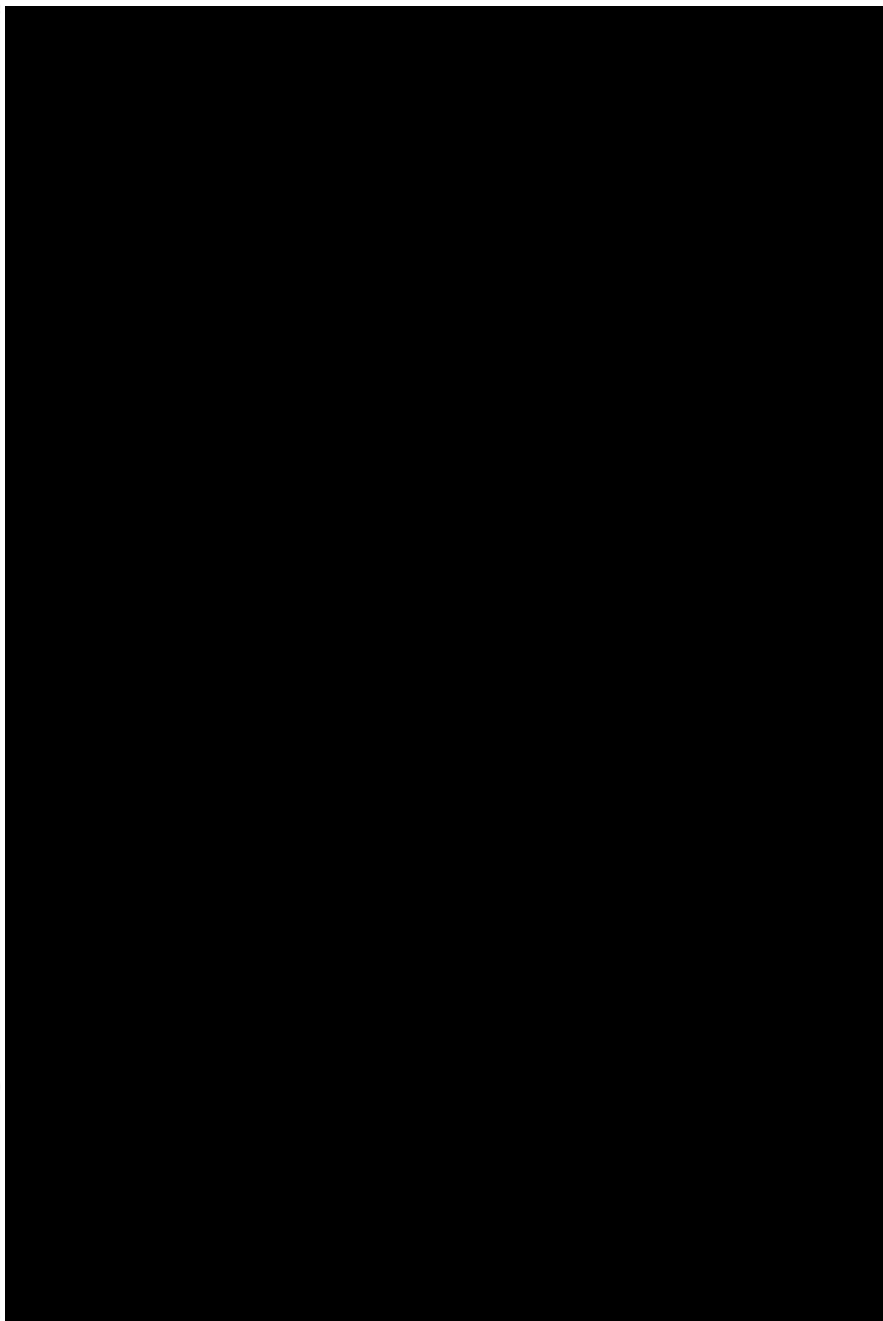


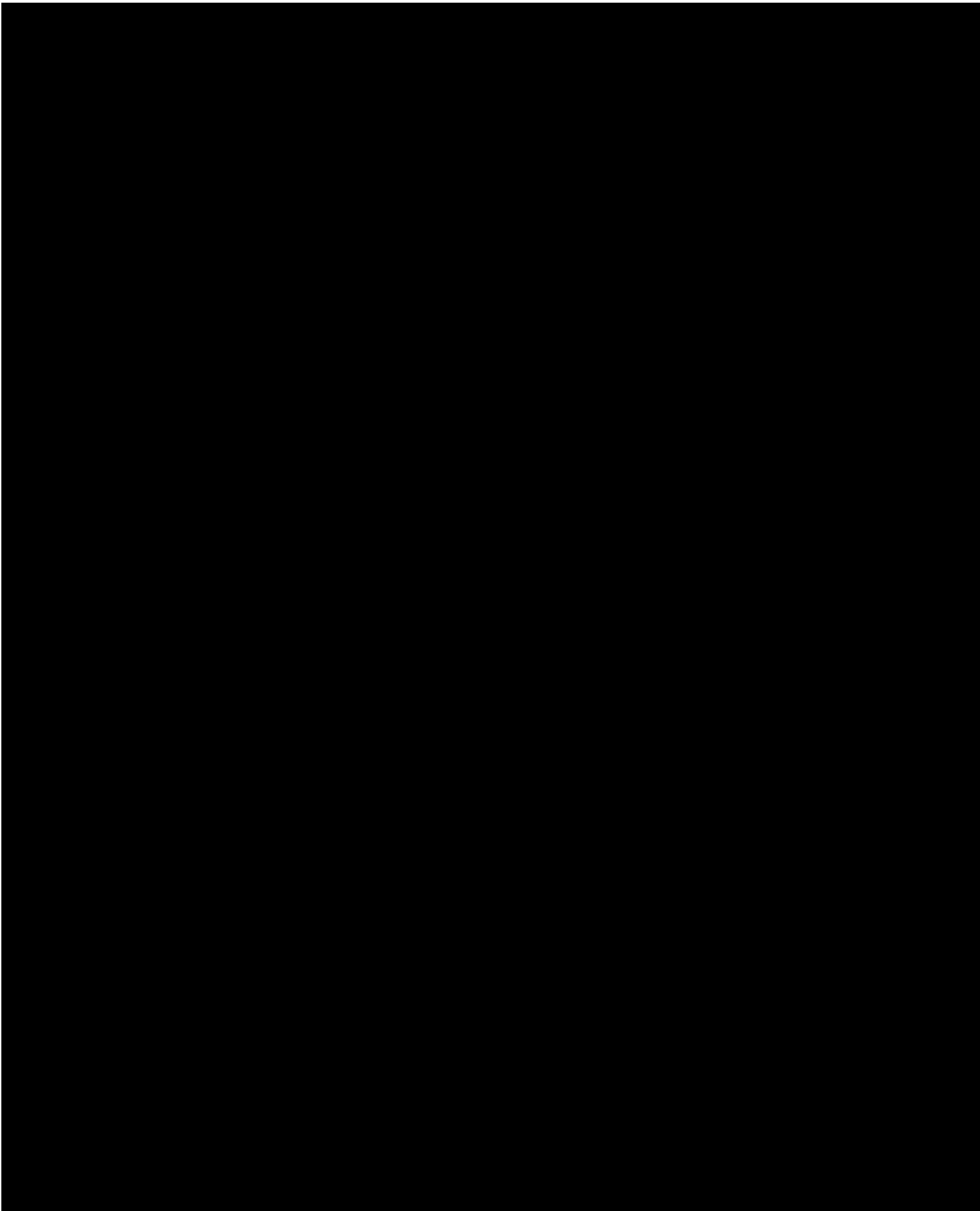


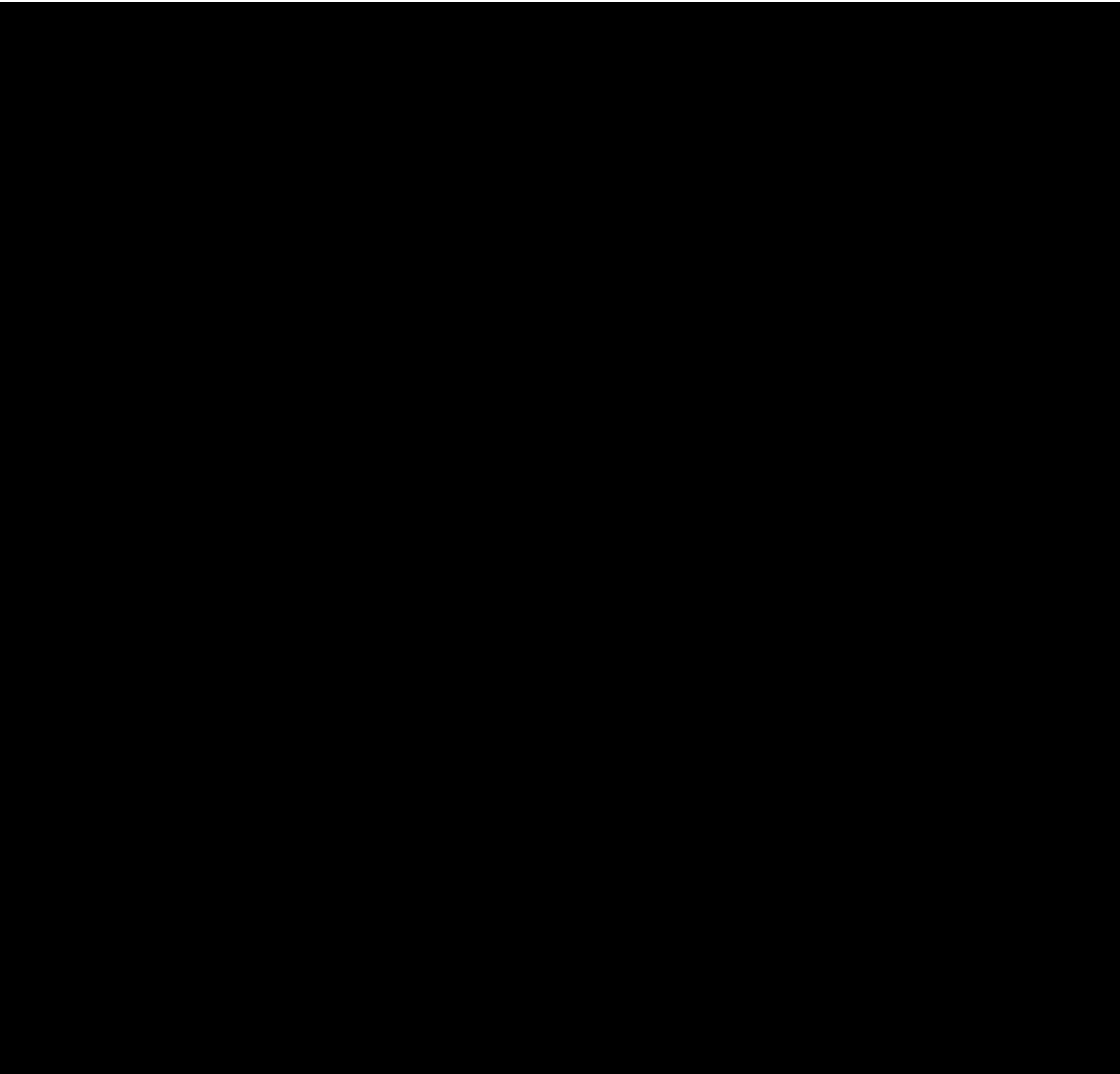


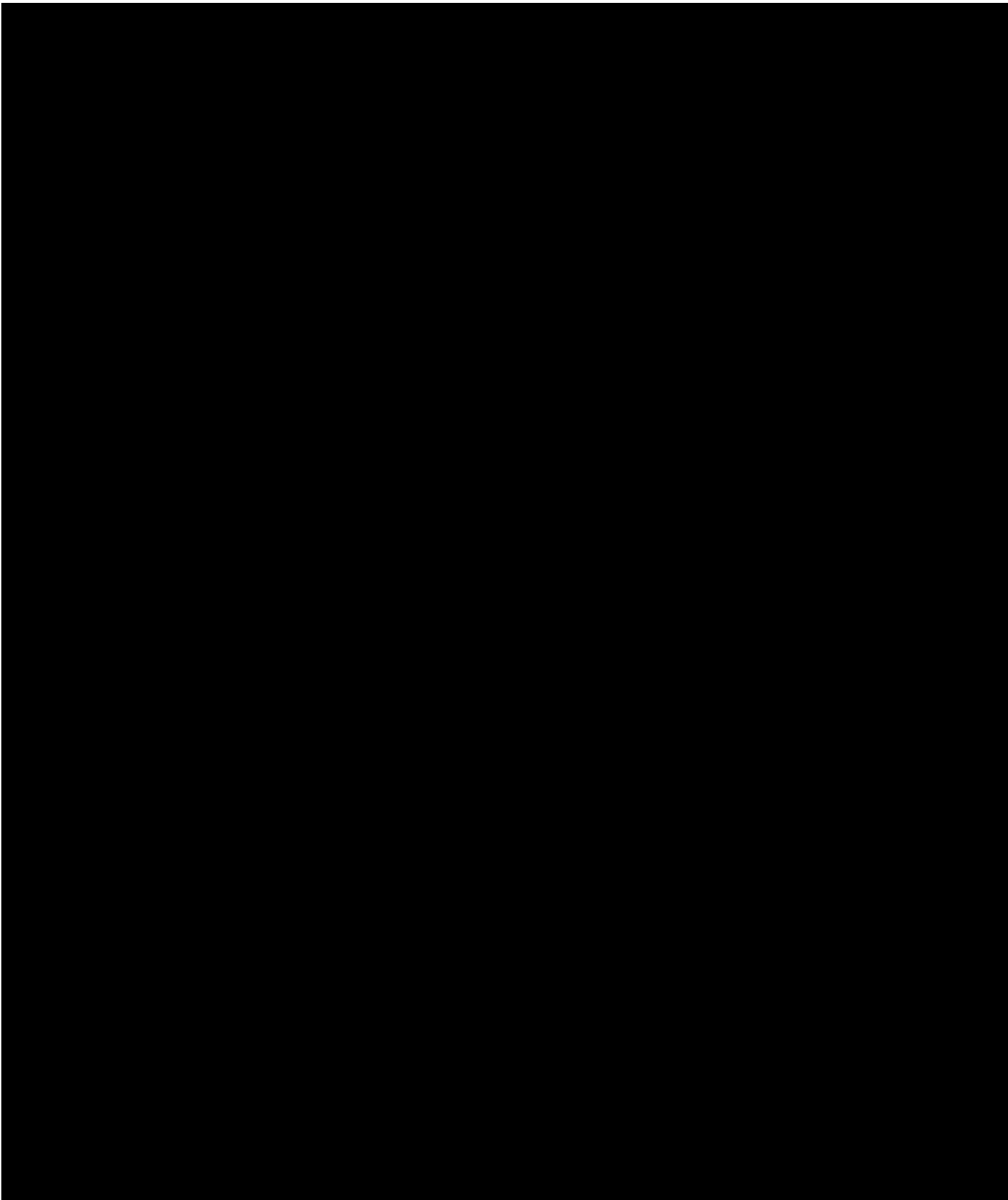


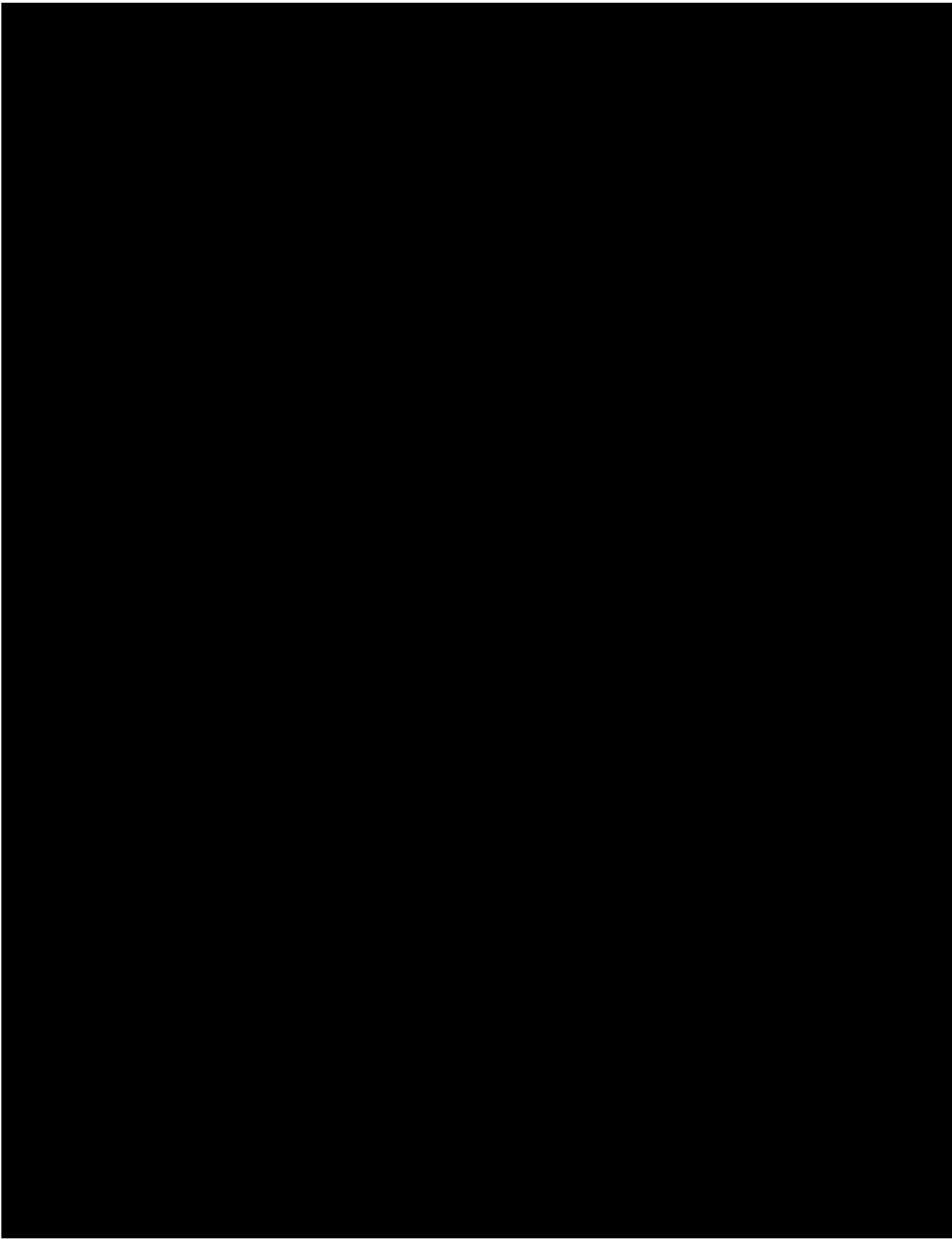


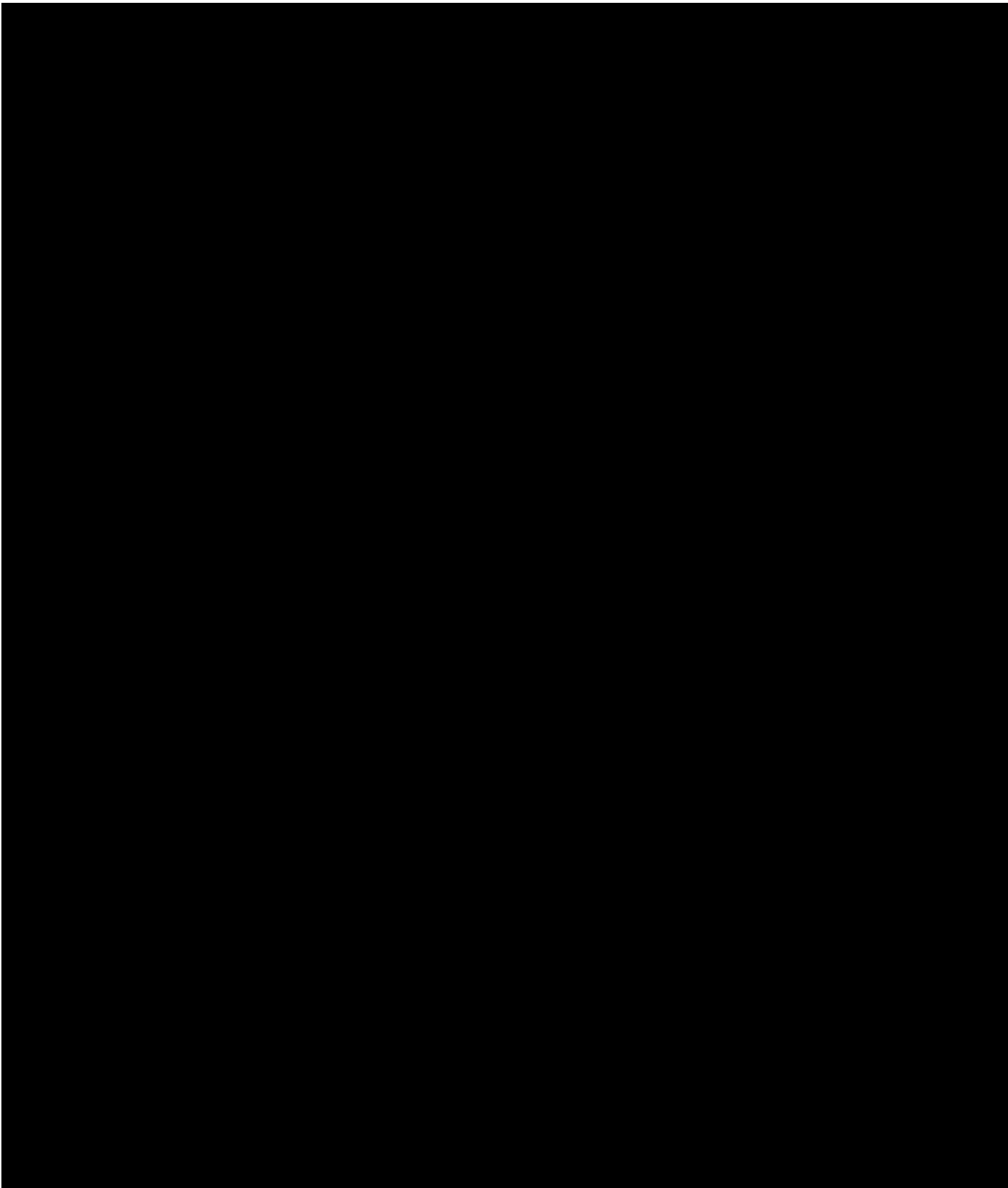




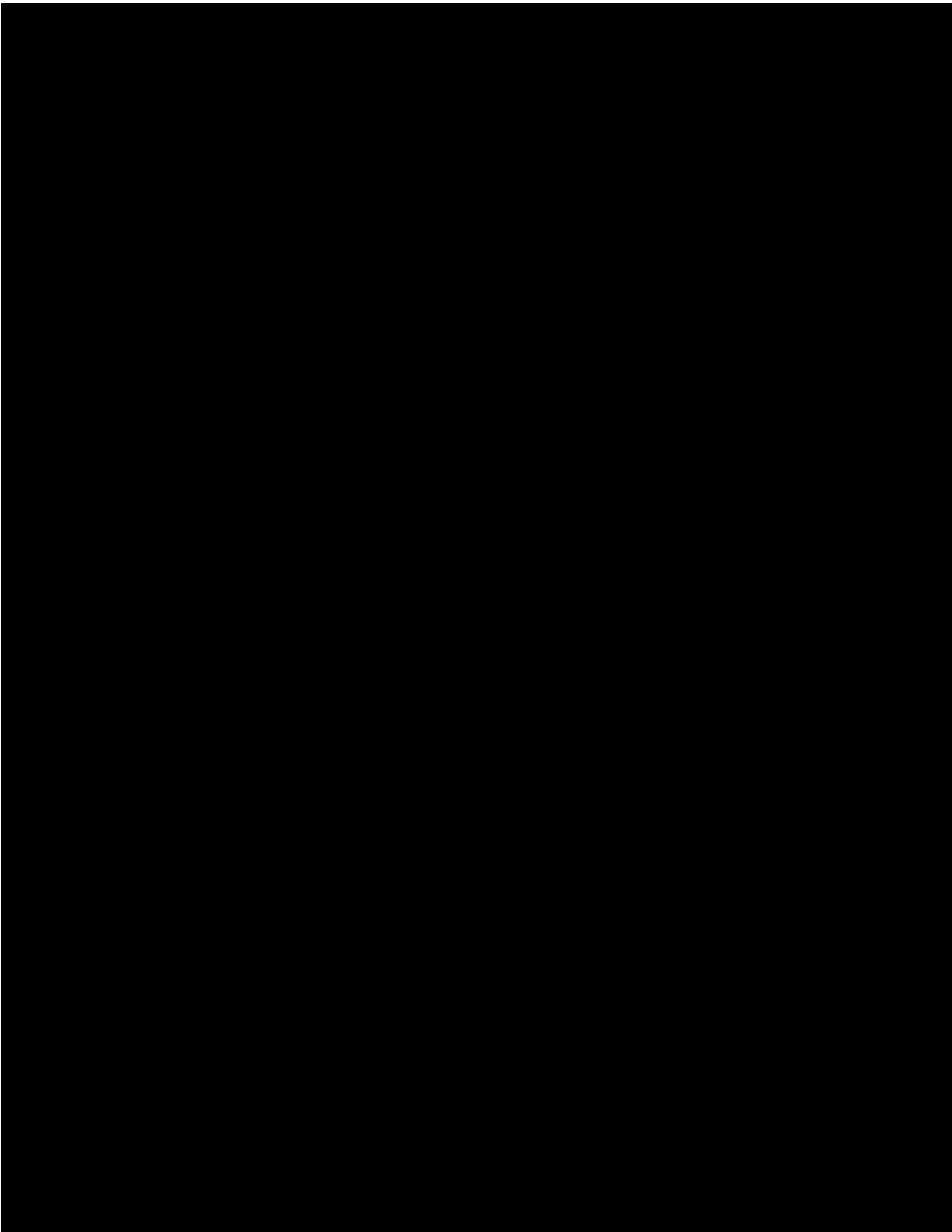


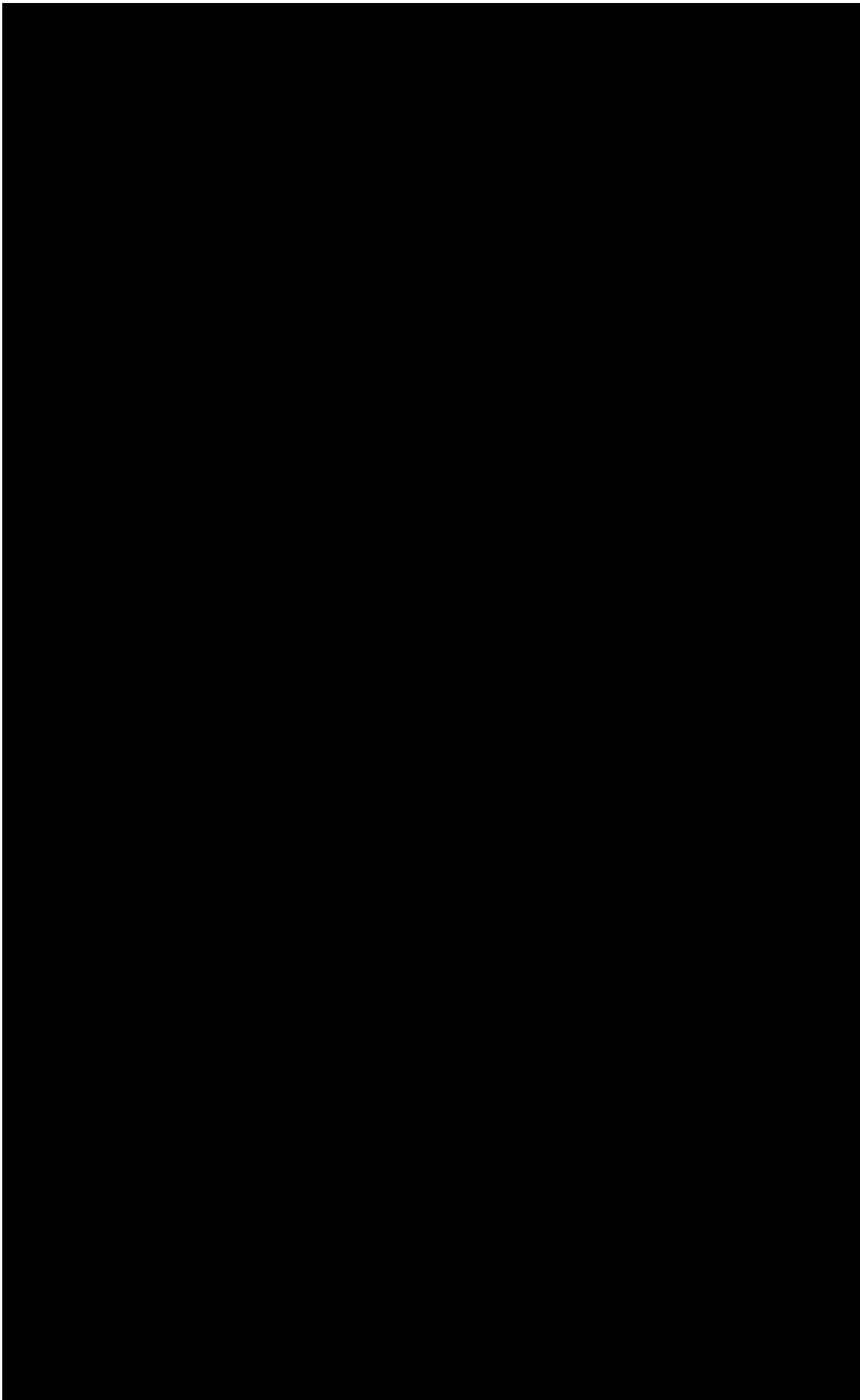


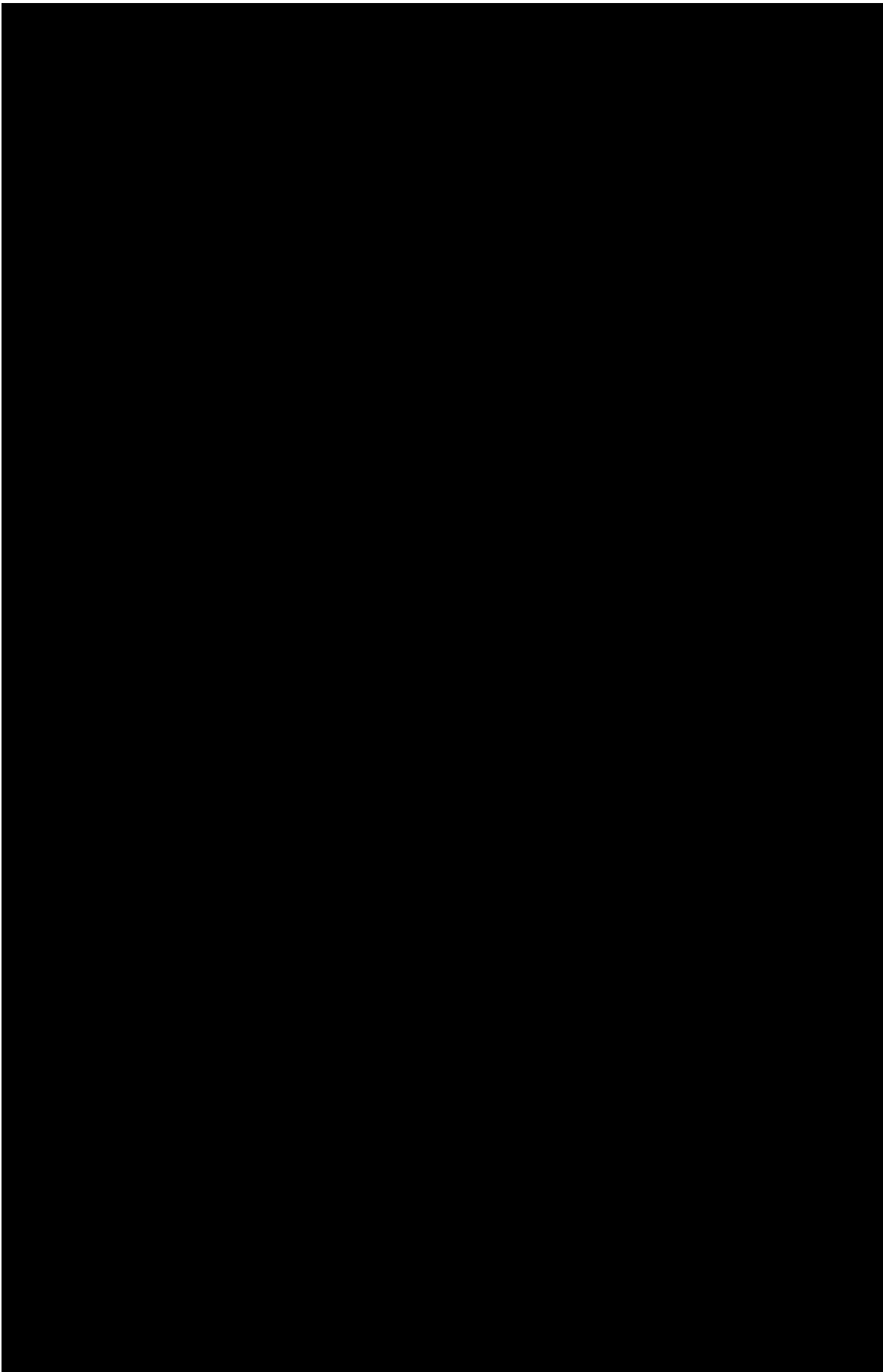






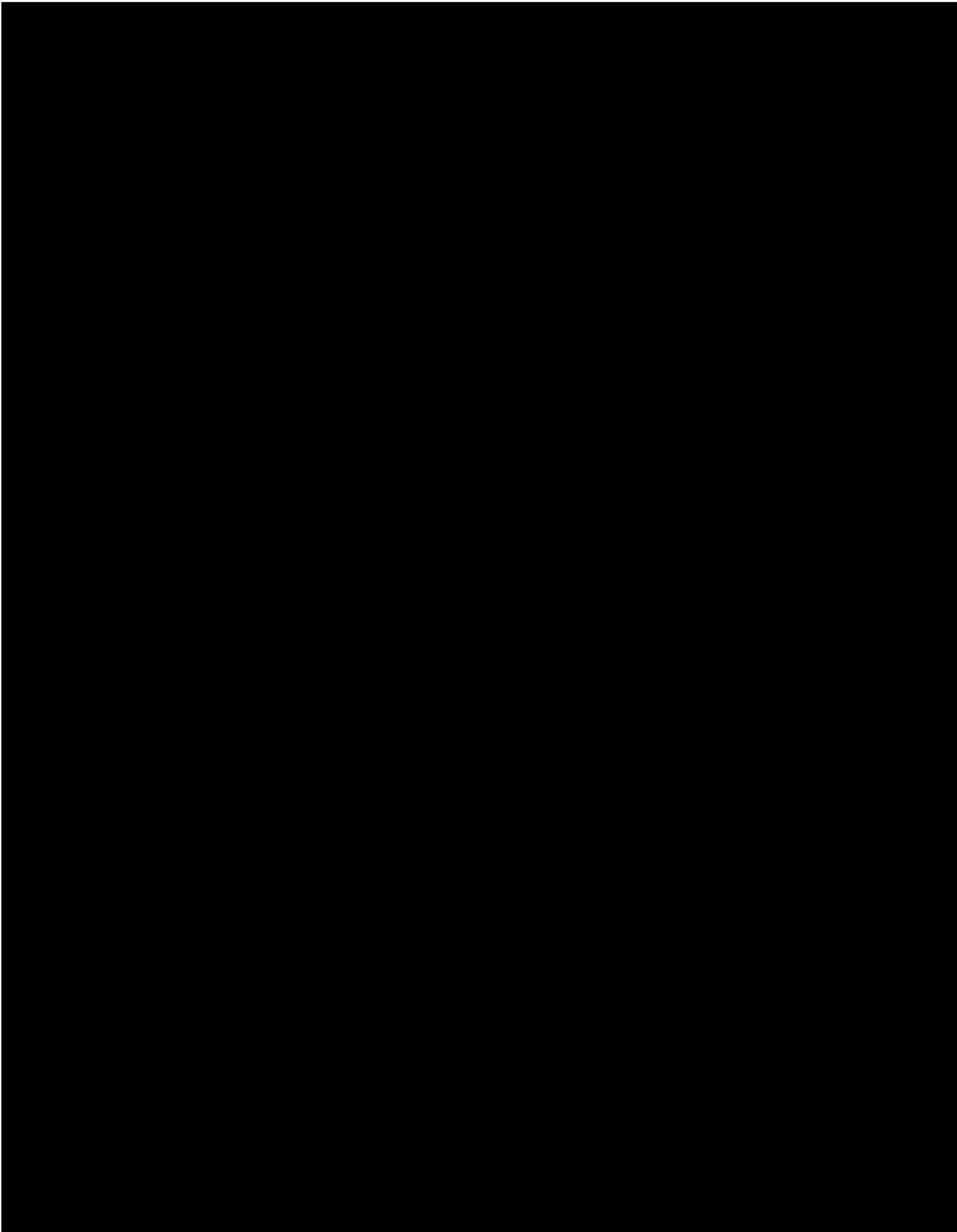


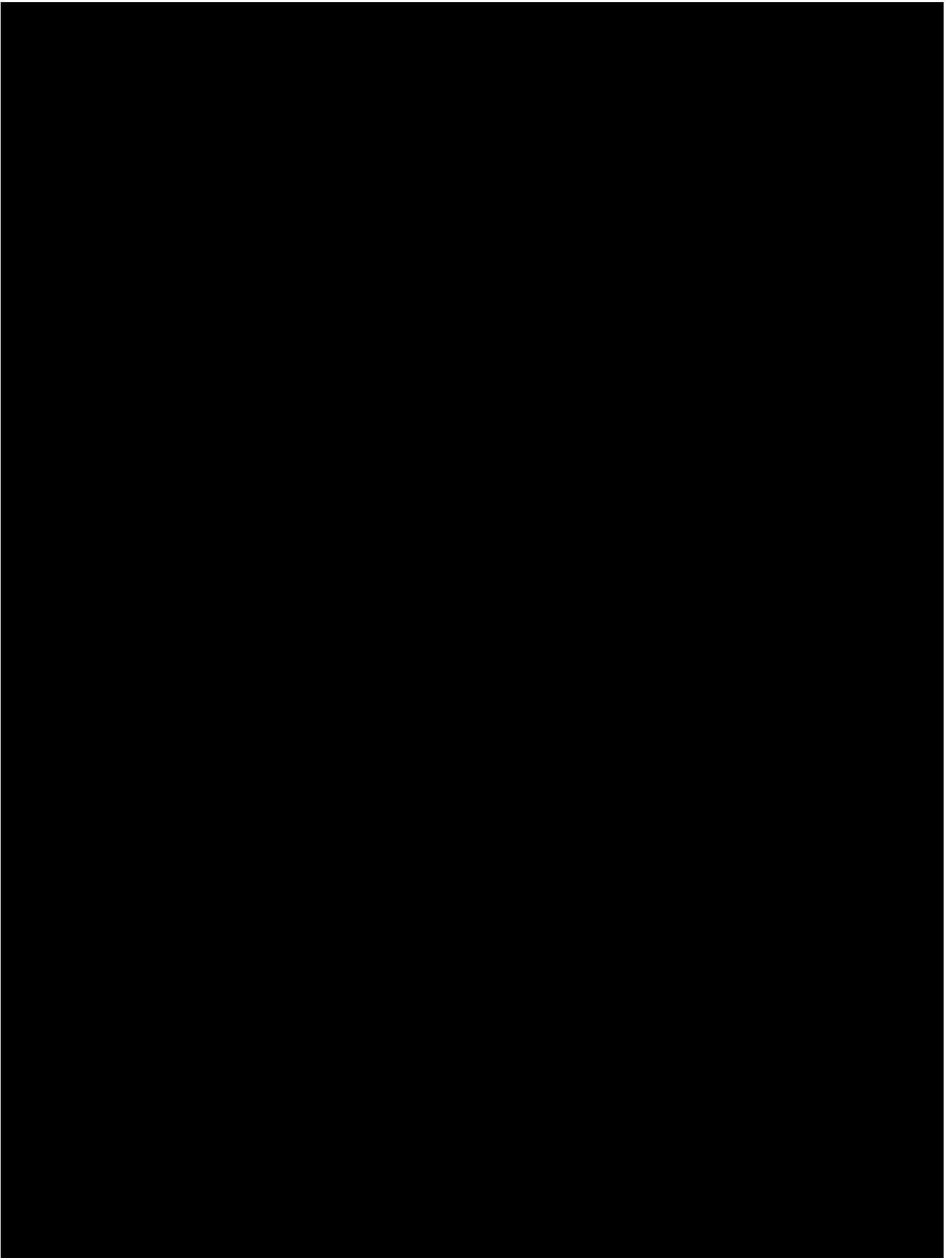


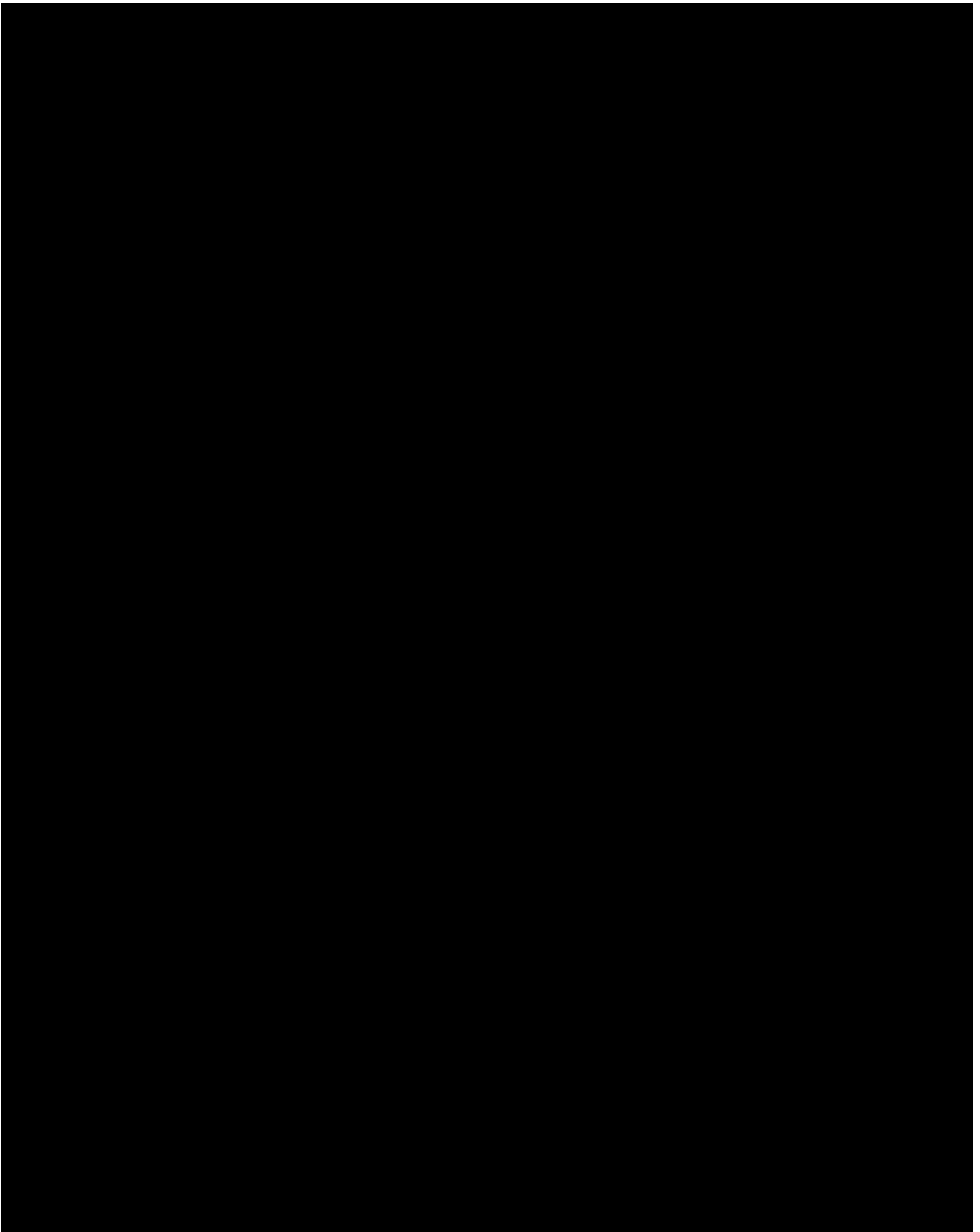


**Attachment 10: Cal Am's Response to DR WW2 001.3 Q002 Attachments -  
CONFIDENTIAL**

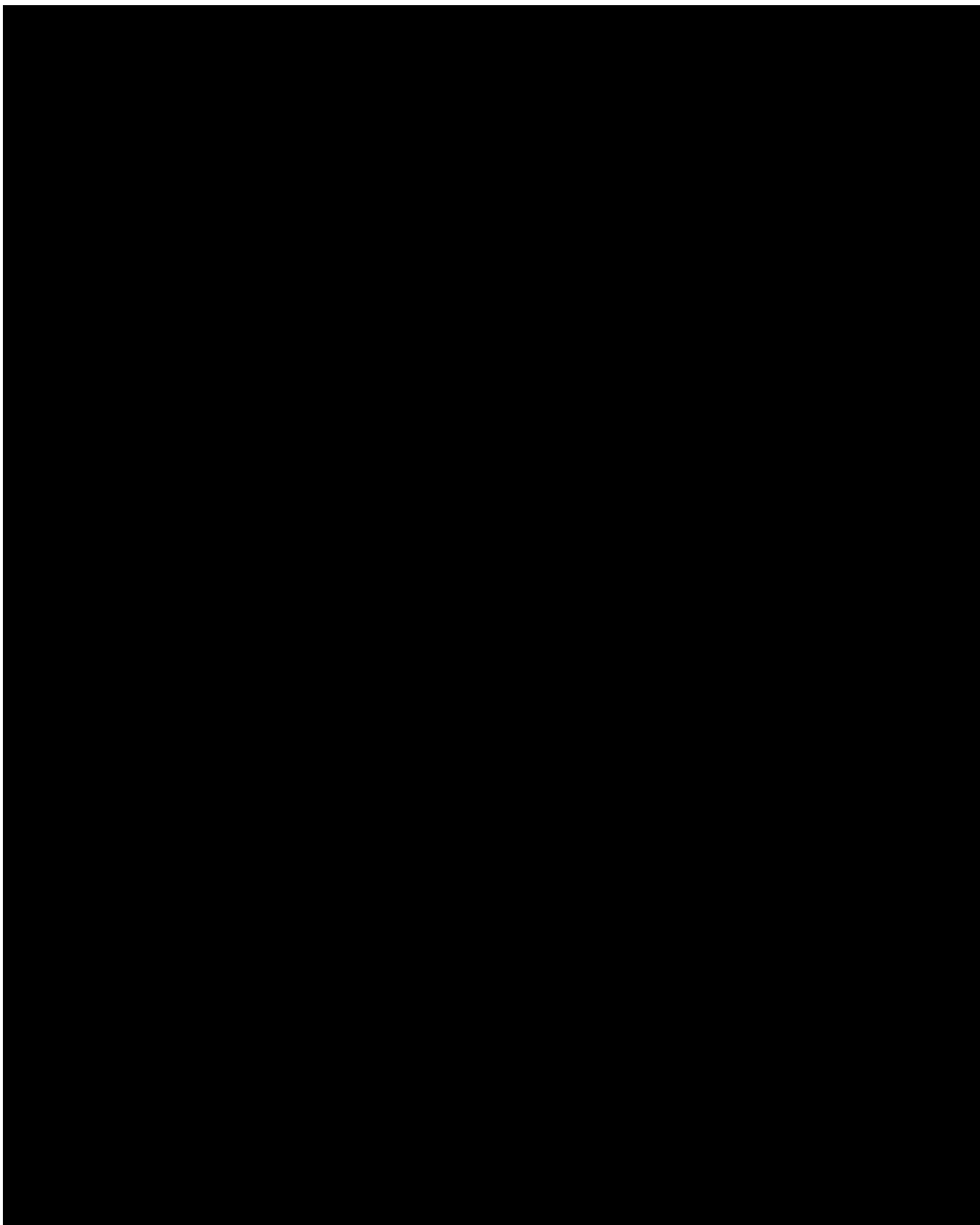














California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

**Response Provided By:** Patrick Pilz  
**Title:** Manager of Field Operations  
**Address:** California American Water  
655 W. Broadway, Suite 1410, San Diego, CA 92101

**ORA Request:** ORA A.16-07-002 WW2-001.2  
**Company Number:** CAW-ORA A.16-07-002 WW2-001.2 Q003  
**Date Received:** October 17, 2016  
**Date Response Due:** October 27, 2016  
**Subject Area:** Uncollectible & Leak Adjustments Follow Up

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**DATA REQUEST:**

3. Refer to the table below. Please explain what caused the increase of leak adjustment expenses in 2015 compared to 2013 and 2014.

**Table Extracted from ORA WW2-001 Q001 Attachment 1**

Recorded (\$)					Projected (\$)			
2011	2012	2013	2014	2015	2016	2017	2018	2019
2,188,537	2,071,889	1,559,132	2,316,815	3,718,023	3,017,419	3,017,419	1,417,702	1,417,702

**5 yr average** 2,370,879

**2 yr average** 3,017,419

**CAL-AM'S RESPONSE:**

The increase in leak adjustments in 2015 compared to 2013 and 2014 is due to a number of different factors:

Raised customer awareness of leaks due to national drought media coverage and the State Water Resource Control Board's emergency drought regulations, including regulations regarding fixing leak requirements.

Raised customer awareness in Monterey of possibility to obtain leak adjustments due to local media coverage of high bills associated with leaks and California American Water's bill leak adjustments.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

Modifications to California American Water's leak adjustment policies and procedures in Monterey which were driven by steeply inclining rate design, a result of the particular need for conservation in Monterey. Specifically, the steeply inclining rate design in Monterey can cause a leak to result in a water bill in the thousands of dollars.

To the extent volumetric rates increased, a leak increased the potential amount of a total adjustment.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

<b>Response Provided By:</b>	<b>Patrick Pilz</b>
<b>Title:</b>	<b>Manager of Field Operations</b>
<b>Address:</b>	<b>California American Water</b> <b>655 W. Broadway, Suite 1410, San Diego, CA 92101</b>
<b>ORA Request:</b>	<b>ORA A.16-07-002 WW2-001.2</b>
<b>Company Number:</b>	<b>CAW-ORA A.16-07-002 WW2-001.2 Q004</b>
<b>Date Received:</b>	<b>October 17, 2016</b>
<b>Date Response Due:</b>	<b>October 27, 2016</b>
<b>Subject Area:</b>	<b>Uncollectible &amp; Leak Adjustments Follow Up</b>

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**DATA REQUEST:**

4. In PDF format, provide the company's policy and procedures for providing leak adjustments to customer bills.

**CAL-AM'S RESPONSE:**

Please see ORA WW2-001.2 Q004 Attachment CONFIDENTIAL, which is California American Water's Good Will Customer Bill Adjustment Guidelines. This document is confidential and is being supplied pursuant to General Order 66-C, Section 583 of the California Public Utilities Code and the accompanying confidentiality declaration. These Good Will Customer Bill Adjustment Guidelines were implemented in 2013. Modifications were, however, subsequently made to the bill adjustment process for the Monterey service area. The steeply inclining rate design driven by the need for conservation in Monterey can cause a leak to result in a water bill in the thousands of dollars. This triggered a need for frequent case by case bill adjustment decisions in Monterey that could at times offer different adjustment terms than stated in the Good Will Customer Bill Adjustment Guidelines. The decision to modify the guidelines for Monterey, to examine each case individually, also coincided with the decision to establish a new Monterey customer service supervisor position in the Monterey district to improve the speed and efficiency of customer service in responding to these issues.

California-American Water Company

APPLICATION NO. A.16-07-002  
DATA REQUEST RESPONSE

<b>Response Provided By:</b>	<b>Patrick Pilz</b>
<b>Title:</b>	<b>Manager of Field Operations</b>
<b>Address:</b>	<b>California American Water</b> <b>655 W. Broadway, Suite 1410, San Diego, CA 92101</b>
<b>ORA Request:</b>	<b>ORA A.16-07-002 WW2-001.2</b>
<b>Company Number:</b>	<b>CAW-ORA A.16-07-002 WW2-001.2 Q005a</b>
<b>Date Received:</b>	<b>October 17, 2016</b>
<b>Date Response Due:</b>	<b>October 27, 2016</b>
<b>Subject Area:</b>	<b>Uncollectible &amp; Leak Adjustments Follow Up</b>

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**DATA REQUEST:**

5. In Excel format, provide a list of customers that have received leak adjustments on their bills for the period from 2013 to 2015, with details on the date, amount of adjustment received, and justification for the adjustment. Additionally:
- For the top 10 adjustments, provide the actual customer bills in PDF format.

**CAL-AM'S RESPONSE:**

California American Water objects to this request on the grounds that it is unduly burdensome for California American Water to provide justifications for the numerous adjustments made during the specified time-frame and would require California American Water to create new work product. To provide a justification for each of the adjustments reflected in the attached would be an extremely time consuming and labor intensive. California American Water has no ability to simply run a report which would generate all the information sought by this request. California American Water also objects to the phrase "top 10 adjustments" as vague and ambiguous. Subject to and without waiving these objections, California American Water will respond to this request.

California-American Water Company

APPLICATION NO. A.16-07-002

DATA REQUEST RESPONSE

<b>Response Provided By:</b>	<b>Patrick Pilz</b>
<b>Title:</b>	<b>Manager of Field Operations</b>
<b>Address:</b>	<b>California American Water 655 W. Broadway, Suite 1410, San Diego, CA 92101</b>
<b>ORA Request:</b>	<b>ORA A.16-07-002 WW2-001.2</b>
<b>Company Number:</b>	<b>CAW-ORA A.16-07-002 WW2-001.2 Q005b</b>
<b>Date Received:</b>	<b>October 17, 2016</b>
<b>Date Response Due:</b>	<b>October 27, 2016</b>
<b>Subject Area:</b>	<b>Uncollectible &amp; Leak Adjustments Follow Up</b>

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**DATA REQUEST:**

5. In Excel format, provide a list of customers that have received leak adjustments on their bills for the period from 2013 to 2015, with details on the date, amount of adjustment received, and justification for the adjustment. Additionally:

- a. For any incidents in which Cal Am provided an exception to its policies and procedures in providing the leak adjustment, make note of this exception and include an explanation.

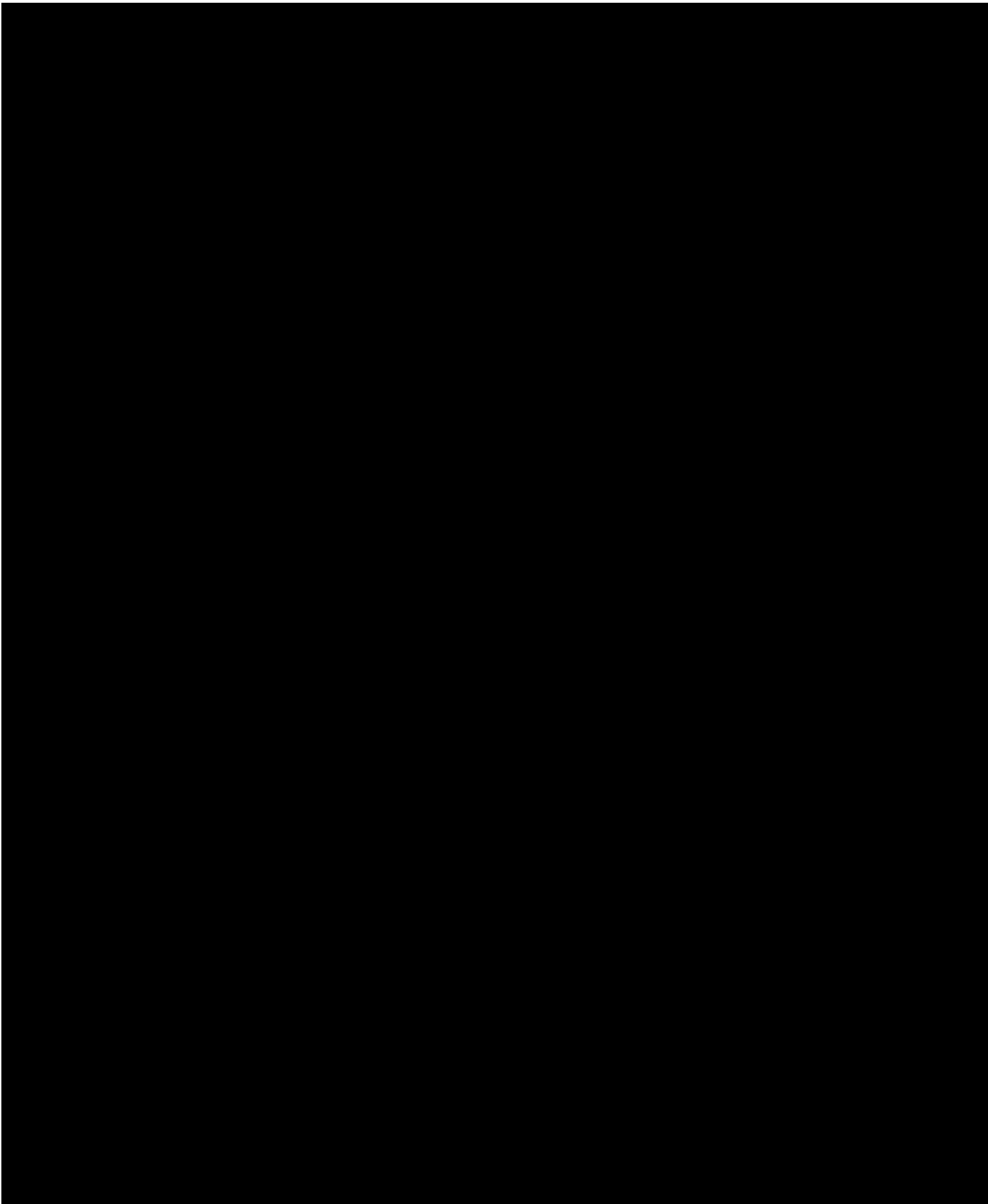
**CAL-AM'S RESPONSE:**

California American Water objects to this request on the grounds that it is unduly burdensome for California American Water to identify when an exception was made for the numerous adjustments made during the specified time-frame and would require California American Water to create new work product. To identify where an exception was made would be an extremely time consuming and labor intensive. California American Water has no ability to simply run a report which would generate all the information sought by this request. Subject to and without waiving these objections, California American Water responds as follows.

As stated in California American Water's response to ORA A.16-07-002 WW2-001.2 Q004, the Monterey District's steeply inclining rate design can lead to very high water bills and many bill adjustment requests were evaluated on a case by case basis outside of the standardized adjustment guidelines.

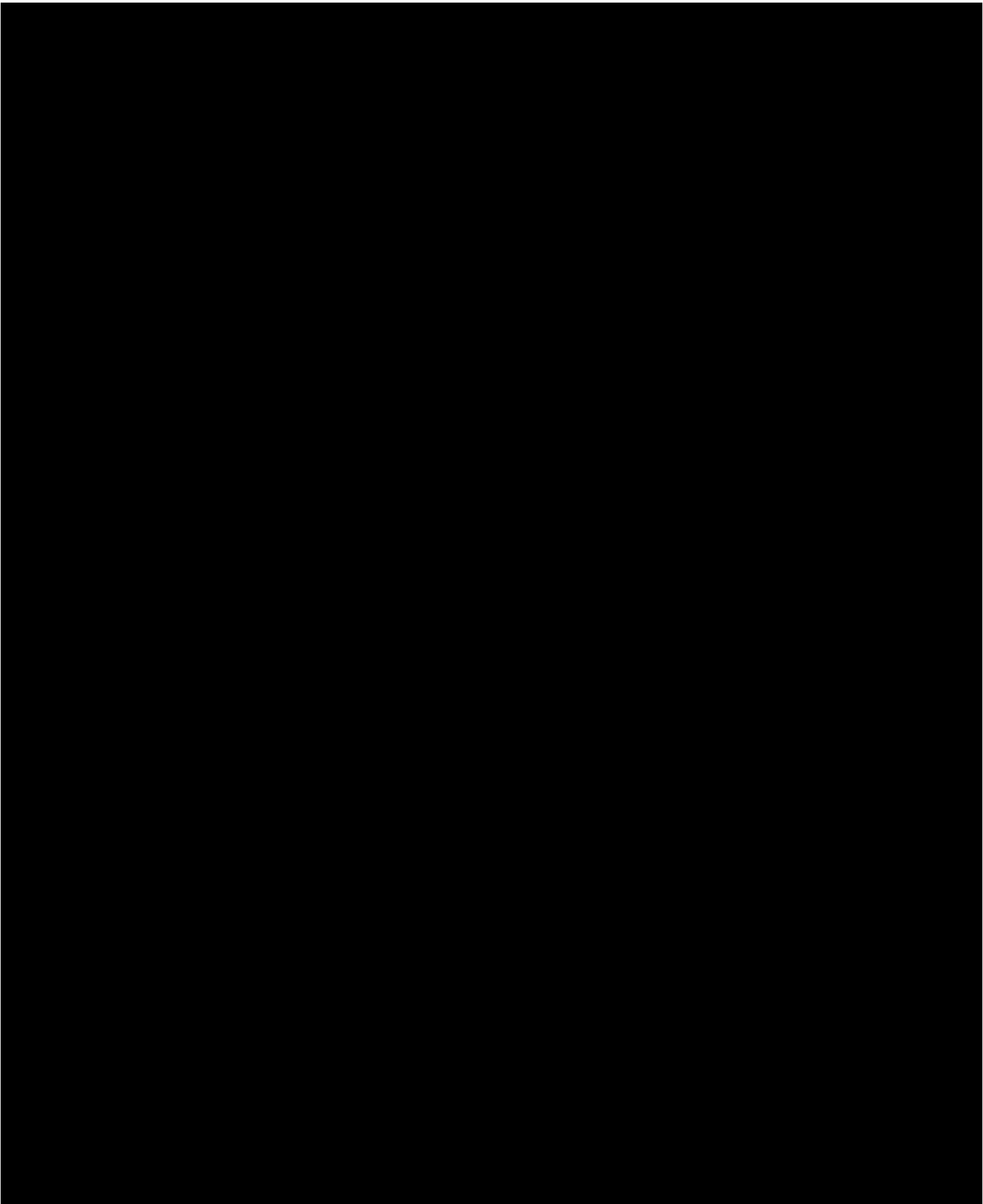
Cal Am Declined to give case by case justification for leak adjustment exceptions given outside its standardized adjustment guidelines.

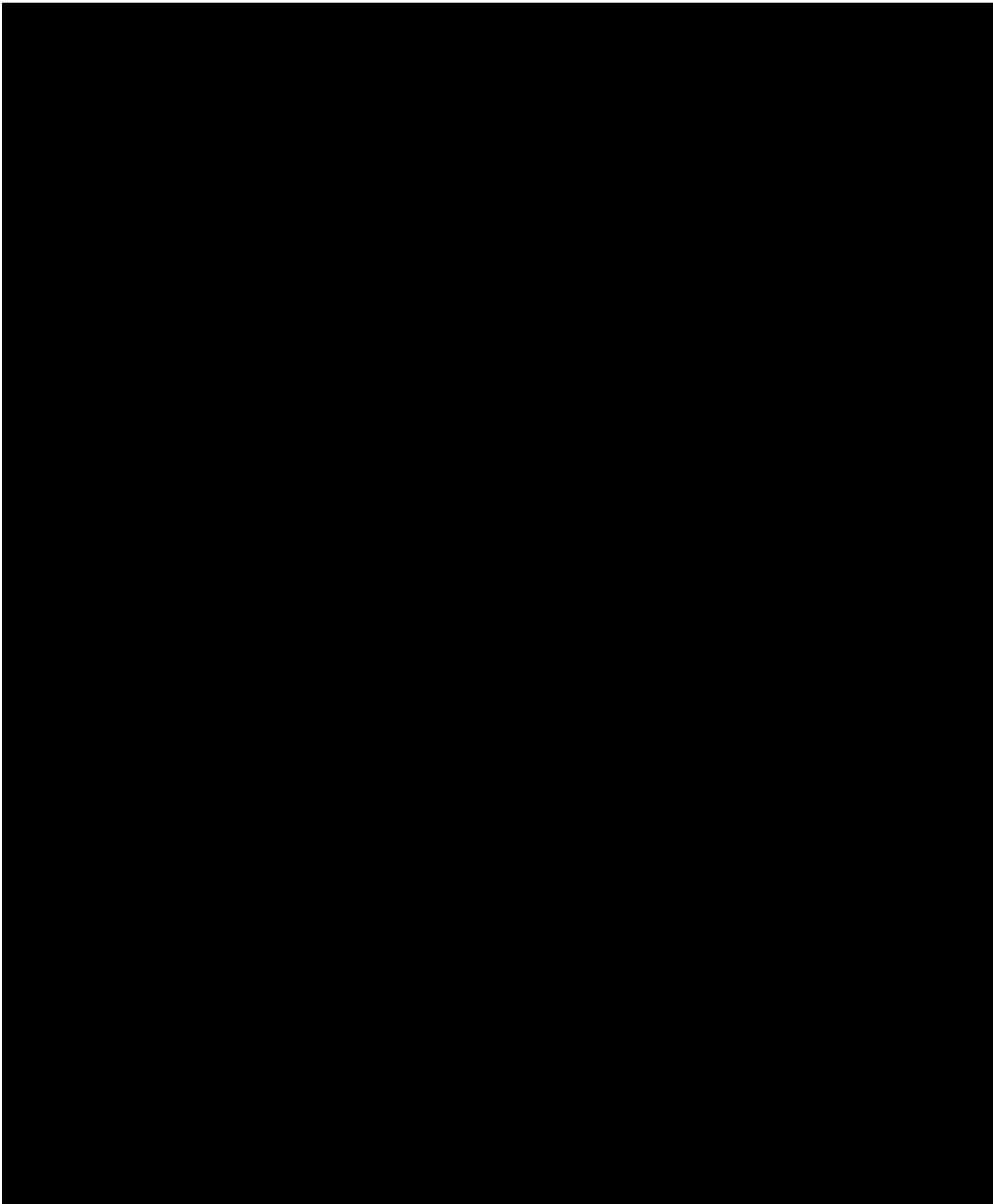




[REDACTED]

[REDACTED]







1     **Attachment 12: Cal Am's Justifications for Leak Adjustments Extended -**  
2                     **CONFIDENTIAL**

